

# HOUSE RESEARCH

## Bill Summary

**FILE NUMBER:** H.F. 2362

**DATE:** April 26 2007

**Version:** Second engrossment

**Authors:** Lenczewski

**Subject:** Tax Omnibus Bill

**Analyst:** Joel Michael, 651-296-5057

Steve Hinze, 651-296-8956

Nina Manzi, 651-296-5204  
Karen Baker, 651-296-8959  
Pat Dalton, 651-296-7434

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: [www.house.mn/hrd](http://www.house.mn/hrd).

### Table of Contents

#### Bill

Article 1: Homestead Credit State Refund Homeowners and Renters ....	3	3
Article 2: Aids to Local Governments .....	5	11
Article 3: Property Taxes .....	8	25
Article 4: Corporate Franchise Tax .....	28	83
Article 5: Individual Income Tax .....	32	101
Article 6: Sales and Use Tax .....	40	118
Article 7: Economic Development .....	47	142
Article 8: Minerals .....	55	174
Article 9: Special Taxes .....	57	180

Article 10: Department Income and Franchise Taxes .....	63 .....	192
Article 11: Department Sales and Use Taxes .....	65 .....	204
Article 12: Department Property Taxes and Aids .....	71 .....	230
Article 13: Department Special Taxes .....	76 .....	270
Article 14: Miscellaneous .....	78 .....	276

## **Article 1: Homestead Credit State Refund Homeowners and Renters**

### **Overview**

This article phases out the homestead market value credit and repeals the property tax refund (PTR) for homeowners, replacing both programs with a new homestead credit state refund program, based on income and property tax, and also increases the existing property tax refund for renters. The new homestead credit state refund has two parts:

1. A refund equal to a percentage of the homeowner's property taxes that exceed 2 percent of household income. The refund or credit rates range from 90 percent for very low-income filers to 25 percent for upper income filers (up to \$150,000). The maximum credit is \$2,500. By comparison the existing PTR has a maximum income limit of \$92,980 and a maximum refund of \$1,740 (both for property taxes paid in 2008).
2. A minimum refund is guaranteed for a 3-year period (2008 - 2010) based on the homestead market value credit and is unrelated to income. This guarantee is provided directly on the property tax statement (the homestead credit state refund must be applied for because it is based on income) and equals 100 percent of the market value credit for pay 2008; 60 percent for pay 2009; and 30 percent for pay 2010. Beginning in 2011, no minimum guarantee unrelated to income is provided.

- 1 Homestead market value credit. Phases out the homestead market value credit over a 3-year period, so that no credit is allowed for property taxes payable in 2011 and following years. The phaseout is as follows:
  - ▶ taxes payable in 2008, 100 percent of credit
  - ▶ taxes payable in 2009, 60 percent of credit
  - ▶ taxes payable in 2010, 30 percent of credit
  - ▶ taxes payable in 2011 and thereafter, no credit allowed
- 2 Property tax statement. Provides for the commissioner of revenue to direct counties to include information about the market value credit amount allowed for taxes payable in 2008 through 2010 as needed by taxpayers to calculate the new homestead credit state refund under section 0. Removes the requirement for counties to list various other aids and credits on the property tax statement.
- 3 Homeowner property tax refund; definition of property taxes payable. Modifies the definition of property taxes payable for the homeowner property tax refund to be taxes payable before deduction of the homestead market value credit.
- 4 Renters property tax refund. Increases the maximum renter property tax refund and increases the width of each of the income brackets, effective for refunds based on rent paid in 2007, which will be paid in August 2008. The maximum refund increases by about six percent from \$1,430 to \$1,500, and the maximum income eligible increases from \$50,160 to

\$60,000. The brackets and maximums that appear in the statutes are those that were enacted for refunds paid in 2002 based on rent paid in 2001. The brackets and maximums in effect since 2002 have been indexed annually for inflation.

5 Special property tax refund (targeting). Provides that special property tax refund does not apply to property tax increases resulting from the reduction and elimination of the homestead market value credit in section 0.

6 Homestead credit state refund. Provides a new homestead credit state refund schedule.

Under this schedule, homeowners with household income less than \$150,000 are entitled to a refund of a percentage of property taxes that exceeds 2 percent of their household income. The percentage refunded decreases from 90 percent for homeowners with incomes under \$5,400 to 25 percent for homeowners with incomes from \$134,100 to \$150,000. The maximum refund is \$2,500, compared to \$1,740 under current law.

The new schedule differs from the current law schedule by

- ▶ providing a flat threshold of 2 percent of income (current law income thresholds increase from 1 percent for low income homeowners to 4 percent for homeowners with incomes over about \$43,000)
- ▶ refunding a larger percentage of taxes over the threshold for all incomes
- ▶ providing a larger maximum refund for all incomes
- ▶ extending the refund to homeowners with incomes up to \$150,000, compared to \$92,980 under current law

7 Commissioner's authority. Deletes a cross reference in the commissioner's authority to construct the property tax refund tables and eliminates obsolete language. (Some of the language of this section implied that the authority is limited to homeowner refunds, while DOR has used the authority to construct both homeowner and renter tables.)

8 Inflation adjustment. Adjusts the income ranges and maximum refund amounts under the expanded renter property tax refund in section 0 and the new homestead credit state refund in section 0 annually for inflation, beginning in 2009. Strikes references to indexing the current law homeowner property tax refund, which is repealed in section 0.

9 Repealer. Repeals the current law homeowner property tax refund, which is replaced by the new homestead credit state refund, and an obsolete subdivision providing authority to the commissioner to reconstruct the homeowner tables to reflect elimination of the old homestead credit (repealed in 1989).

## Article 2: Aids to Local Governments

### Overview

Modifies the city LGA formula and increases the appropriation by \$60 million in 2008. Modifications include:

1. Replacing the small city need formula with a simplified formula based on population;
2. Adjusting the need measure for inflation since 2000;
3. Removing the taconite aid offset from the formula
4. Adopting the volatility corrections proposed by the League of Minnesota Cities and other city groups.

Increases the city aid base portion of LGA for the cities of Newport, Taylors Falls, Rockville and Browns Valley.

Provides a \$3 per capita LGA payment to towns beginning with aids payable in 2008.

Increases the appropriation for county program aid by \$24 million for aids payable in 2008, an increase of 11.7 percent over current law.

Provides for an inflation adjustment for city LGA and county program aid appropriations. The size of the adjustment depends on city organizations developing a consensus on the LGA formula in the future.

Provides that aid formulas reflect changes in property tax bases caused by utility property valuations and the casino in Mahnommen in a timely fashion.

- 1 City revenue need. Changes the revenue need calculation for cities with a population less than 2,500. The current formula is based on population, population decline, age of the housing stock, and commercial/industrial property. In the proposed formula

$$\text{NEED} = \$300 \text{ plus the greater of } \$0 \text{ or } (\text{city population} - 100) \times \$0.31$$

The per capita need cannot exceed \$500 before the adjustment for inflation.

Also changes the inflation factor applied to the need measure from inflation since 2003, to inflation since 2000. Effective beginning with aids payable in 2008.

- 2 City aid base. Gives additional money to the following cities:

- an additional \$75,000 annually to the city of Newport for the years 2008 to 2013;
- an additional \$30,000 in 2008 only to the city of Taylors Falls;

- a permanent increase of \$140,000 annually to the city of Rockville; and
- a permanent increase of \$100,000 annually to the city of Browns Valley.

Effective beginning with aids payable in 2008.

3 County transition aid. Makes the transition aid component of county program aid permanent at the 2007 level for aids payable in 2008 and thereafter. Provides for a onetime transition aid payment of \$250,000 to Pine County for aid payable in 2008.

4 City formula aid. Removes the taconite aid offset from the city LGA formula. Effective beginning with aids payable in 2008.

5 City aid distribution. For aids payable in 2008 each city's aid will equal the sum of (1) its city aid base, (2) one-half of its formula aid in 2007, and (3) its share of the remaining appropriation distributed based on the 2008 formula and formula factors. For aids payable in 2009 and thereafter, each city's aid, prior to any limits on increases and decreases, is equal the sum of (1) its city aid base; its formula aid in the previous year before any limits, and its share of the remaining current appropriation distributed based on the current formula and formula factors.

The current limit on annual increases in aid to a city is increased from 10 percent of its previous year's levy to 25 percent for 2008 only to allow the increased appropriation to be distributed via the formula. The total decrease in aid to a city in any year is modified to equal:

- the lesser of \$15 per capita or 10 percent of the previous year's levy for cities with a population of 2,500 or more; and
- the lesser of \$15 per capita or 5 percent of its 2003 certified LGA for cities with a population less than 2,500.

For 2008, the aid a small city receives under the proposed changes may not be less than what it would receive under the current law.

Effective for aids payable in 2008 and thereafter.

6 Town LGA. Provides a \$3 per capita LGA payment to towns beginning with aids payable in 2008. To qualify a town must have levied property taxes in the previous year. There are slightly over 1,800 towns in the state with a 2005 population of 994,916. The aid will be equal to about \$2,985,000 for CY 2008. Towns have not received LGA since 2001.

7 Annual appropriation. Increases the appropriation for city LGA in 2008 by \$60 million, to \$545,052,000. Increases the appropriation for the "need aid" component of county program aid by \$12 million, from \$100.5 million to \$112.5 million, for aids payable in 2008 and increases the appropriation for the "tax base equalization aid" component of county program aid by \$12 million, from \$105.1 million to \$117.1 million, for aids payable in 2008.

Also increases the appropriation for these aid programs beginning in 2009 for inflation For cities the increase is one percent annually for cities unless the cities reach consensus and the legislature enacts a new LGA formula. If this occurs, LGA increases will be based on the increase in the implicit price deflator for state and local government consumption

expenditures and gross investment, limited to a minimum of 2.5 percent and a maximum of 5 percent.

For calendar years 2009-2010, county aid will increase at the same percentage rate as city aids. Beginning with calendar year 2011, county aids will increase based on the implicit price deflator for state and local government consumption expenditures and gross investment, limited to a minimum of 2.5 percent and a maximum of 5 percent.

- 8 Land utilization project land; payments. Increases in-lieu payments for land utilization project lands located in wildlife management areas from 75 cents to \$3 per acre, adjusted for inflation. Effective for payments in 2008 and thereafter.
- 9 Land utilization project land payments; distribution. Provides for the distribution of the increased payments under section 0in the same proportions as the other natural resource lands that earn \$3 per acre.
- 10 Utility property; tax base adjustments for calculation of school district levies and aids. Eliminates the one-year lag between when assessment changes occur and when they are reflected in school formulas for the valuation changes in utility property under Minnesota Rules, chapter 8100. Effective for aids and levies in fiscal years 2009 to 2011.
- 11 Utility property; tax base adjustments for calculation of county and city aids. Eliminates the one-year lag between when assessment changes occur and when they are reflected in county and city aid formulas for the valuation changes in utility property under Minnesota Rules, chapter 8100. Effective for aids payable in 2008 to 2010.
- 12 Mahnomen County; county, city, school district, property tax reimbursement.

Subd. 1. Aid appropriation. Provides a onetime payment of \$250,000 to Mahnomen County in 2008.

Subd. 2. School district and city tax base adjustment. Continues the tax base adjustment used in calculating school district levies for the Mahnomen School District. Originally this adjustment was intended to address Pay 2007 but was not made. It needs to be made for subsequent years while the exemption of the casino is still in dispute. Makes the same adjustment to the tax base used in calculating city LGA while the land is in dispute to allow the lost revenue to be recognized by the formula. These adjustments end after the disputed property is removed from the tax rolls.

- 13 Study of the city local government aid program. Provides for the commissioner of revenue to work with the interested city organizations on examining the current LGA formula and reaching consensus on needed changes. The commissioner shall report on the results of this effort by February 1, 2008. If recommendations are developed and the legislature adopts the recommendations the inflation factor applied to city and county aid appropriations will be increased.

## **Article 3: Property Taxes**

### **Overview**

Extends limited market value for two additional years.

Provides a full or partial valuation exclusion for homesteads of disabled veterans with a disability rating of 50 percent or greater.

Reduces the class rate for the first tier of agricultural homestead property from 0.55 percent to 0.5 percent.

Reduces the class rate for rental duplexes and triplexes to the same class rate structure that applies to homesteads and single-unit rental properties.

Authorizes a reduced property classification rate for qualifying nonprofit community service-oriented organizations ( VFW's, American Legion's, etc.).

Extends the time for filing property tax refund claims for homeowners and renters by one year.

Allows homestead property owners to pay their property tax in 8 equal installments, rather than the current two payments.

Expands eligibility for the senior citizen's property tax deferral program.

Establishes a seasonal recreational property tax deferral program.

Reinstates the "This old house" program, which excludes the increase in value due to a new improvement made to an older home for 10 years.

Changes some of the requirements for class 4d low-income apartment property allowing more property to qualify; and adds a requirement for property having excessive police or sheriff calls.

Increases the market value eligible for the first-tier classification of class 1c homestead resorts from \$500,000 to \$600,000 and reduces the class rate from 0.55 percent to 0.5 percent on the first tier.

Increases the current class rate on electric generation personal property from 2.0 percent to 3.0 percent; and on personal property of transmission and distribution systems from 2.0 percent to 2.25 percent.

Requires cities with a population of more than 2,500 and counties to prepare and send a supplemental proposed property tax notice under certain circumstances.

Allows for a single joint truth-in-taxation public advertisement and hearing involving the county, and all other taxing authorities in the county (Greater Minnesota only).

Requires studies of (1) the costs of the truth in taxation program and the level of taxpayer participation at the hearings, and (2) the fiscal disparities program.

Eliminates the city of Bloomington's obligation to repay the fiscal disparities pool for additional distributions received from the pool between 1988 and 1999.

- 1 Payment in lieu of taxes; towns that incorporate as a city. Allows a town that received a payment in lieu of taxes in 2006 or thereafter, and subsequently incorporated as a city, to continue to receive any future year's allocations that would have been made to the town had it not incorporated. Effective for aid payments made in 2007 and thereafter. Currently the city of Columbus is the only city to qualify for this provision.

Background. These payments are made by DNR for public hunting areas and game refuges. A payment is made to the county and the county treasurer allocates the payment amount to the county, towns, and school districts on the same basis as if the payments were property taxes on the land (i.e., using the local tax rates). Since the language references "towns" and not "municipalities," if a town incorporates as a city, it appears there is no authority for the county treasurer to distribute the share that the town would have received to the city. This section grants that authority.

- 2 Agricultural lands. Provides that when agricultural land that is enrolled in the Green Acres program is sold, and the purchaser changes its use in a way that would result in a classification change, the sales ratio study must take it into account as soon as practicable. A change in status from agricultural homestead to agricultural nonhomestead or agricultural nonhomestead to agricultural homestead is not a change in classification under this section.

Effective for the first sales ratio study prepared following the day following final enactment.

- 3 Modular homes used as models by dealers. (a) Exempts a modular home from property taxation for up to five assessment years if it is:

- owned by a modular home dealer and located on land owned or leased by the dealer;
- a single-family model home;
- used exclusively as a model and not available for sale;
- not permanently connected to any utilities except electricity; and
- situated on a temporary foundation.

(b) Provides that the exemption is for up to five assessment years provided that the modular

home meets all of the criteria in (a). Requires the owner of the modular model home to notify the assessor within 60 days after it has been constructed or situated on the property and again if the home ceases to meet any of the criteria.

(c) Defines "modular home" as a building or structural unit that has been in whole or substantial part manufactured or constructed at an off-site location and assembled on-site as a single-family dwelling. Requires the modular home to comply with certain construction standards.

Effective for assessment year 2007 and thereafter. Provides that the five-year time period begins with the 2007 assessment for a modular home currently situated provided it meets all the criteria and the county assessor is notified with 90 days.

4 Electric generation facility; personal property. (a) Exempts the attached machinery and personal property that is part of a simple-cycle combustion-turbine electric generation facility that exceeds 150 megawatts of installed capacity. The proposed facility will be built in the City of Elk River (Sherburne County). At the time of construction the facility must:

- 1. utilize natural gas as a primary fuel;
- 2. be owned by an electric generation and transmission cooperative;
- 3. be located within one mile of an existing 16-inch natural gas pipeline and a 69-kilovolt and 230-kilovolt high-voltage electric transmission line;
- 4. be designed to provide peaking, emergency backup, or contingency services;
- 5. have received a certificate of need under 216B.243 demonstrating demand for its capacity; and
- 6. have received local approval from the governing bodies of the county and the city where the facility is to be located for the personal property exemption.

(b) Requires the construction of the facility to be commenced after January 1, 2008, and before January 1, 2012. The exemption does not include electric transmission lines and interconnections appurtenant to the property or facility.

Effective the day following final enactment.

5 Apprenticeship training facilities. Exempts property used exclusively to operate a state-approved apprenticeship program through the Department of Labor and Industry and owned by a 501(c)(3) nonprofit corporation, provided the program participants receive no compensation.

Effective for property taxes payable in 2008 and thereafter.

6 Certificate of value; requirement. Requires that the certificate of value include any proposed change in use of the property known to the person filing the certificate that could change the classification of the property. A certificate of value must be filed when property is sold. It is the basis for the sales ratio study prepared by the Department of Revenue and used in

equalization of values.

7 Limited Market Value. Extends limited market value (LMV) for two additional years, providing that the amount of increase for assessment years 2007 and 2008 (payable years 2008 and 2009) shall not exceed the greater of: (1) 15 percent of the value in the preceding assessment, or (2) 25 percent of the difference between the current assessment and the preceding assessment. This is the same formula limiting increases for the 2006 assessment (payable 2007). Under current law, LMV is scheduled to be completely phased-out by the 2009 assessment, taxes payable in 2010. This will delay the complete phase-out until assessment year 2011, taxes payable in 2012

8 Valuation exclusion for certain improvements. Re-establishes the "This old house" program that was in effect from 1993 to 2003. This program excludes up to \$75,000 of qualifying value of new improvements provided that:

(1) the house is at least 50 years old at the time of the improvement; and

(2) the assessor's estimated market value of the house on January 2 of the current year does not exceed \$400,000.

The improvements for a single project or in any one year must add at least \$15,000 to the value of the property to be eligible for the exclusion, but no more than two separate improvements may be made to the homestead. The exclusion is for 10 years, and shall be added back to the property as follows:

(1) 50 percent in the two subsequent assessment years if the qualifying value is equal to or less than \$20,000 market value; or

(2) 33 1/3 percent in the three subsequent assessment years if the qualifying value is greater than \$20,000.

The owner must file an application with the assessor. Various provisions are specified in this section for filing the application and for property located both in jurisdictions requiring and not requiring building permits. Most of the language is identical to what was in effect under the former "This old house program."

Valuation exclusion terminates whenever the property is: (1) sold; or (2) reclassified to a class that does not qualify.

Effective for improvements made after January 2, 2008.

9 Green acres applications denied by county. Requires each county (for applications filed for the 2007 and 2008 assessment years), to forward to the Department of Revenue all applications for participation in the green acres program that the county has denied, and a list of property owners who requested an application and were denied. Requires the department to compile a list of the denials along with the reasons for the denials and file an annual report by February 1, 2008, and February 1, 2009, with the chairs of the House and Senate Tax Committees.

Effective for applications filed after the day following final enactment.

10 Local option; homestead property. Under current law, a county may grant an abatement to property that has been *unintentionally or accidentally* destroyed if 50 percent or more of the

structure is uninhabitable or unusable. This bill extends that authorization to damage caused by arson and vandalism, if committed by someone other than the owner.

If the county board chooses to grant the abatement, it is based upon a ratio; the numerator of which is the number of months the structure was unoccupied or unusable, and the denominator of which is 12 months. The owner must make written application to the county. The abatement may be for taxes in the year of destruction and in the following year.

Property qualifying for and receiving reassessment and disaster credit reimbursement for major/natural disasters declared by Governor and approved by Executive Council, covering disasters such as floods, tornados etc., are not eligible for abatement under this subdivision.

Effective for destruction that occurs in calendar year 2006 and thereafter

- 11 Relative homesteads; general rule. Eliminates relative homesteads for non-agricultural properties, other than those approved prior to July 1, 2007. Under current law, residential real estate that is occupied and used for purposes of a homestead by a relative of the owner is granted homestead status as if it were owner-occupied. In the case of residential homesteads, "relative" includes a parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, aunt, nephew, or niece. This relationship may be by blood or by marriage.

Effective the day following final enactment.

- 12 Agricultural homesteads; special provisions.

Minimum size requirement. Clarifies that the requirement to have at least 40 acres to qualify for the special homestead classification allows for adjustments made for undivided government lots and correctional 40's. Allows property to qualify consisting of at least 20 acres if used "exclusively and intensively" for raising or cultivating agricultural products.

Noncontiguous property. Eliminates the requirement that noncontiguous property be within four townships or cities or combination thereof to be part of the agricultural homestead, and replaces it with a requirement that noncontiguous property either be in:

- ▶ the same county as the agricultural homestead; or
- ▶ a county contiguous to the county in which the agricultural homestead is located.

Effective for the 2008 assessment, taxes payable in 2009 and thereafter.

- 13 Manufactured homes. Provides that improvements constructed on property that is leased or rented as a site for a manufactured home, sectional structure, park trailer, or travel trailer is taxable only if its estimated market value exceeds \$1,000 (storage sheds, decks, etc). Under current law these improvements are taxable if they exceed \$500 in value. Effective for assessment year 2007 and thereafter, taxes payable in 2008 and thereafter.

- 14 Requirement. Decreases the percentage of units needed for a property to qualify for the 4d (low-income apartment) classification from 75 percent to 20 percent. The class rate for 4d is 0.75 percent as compared to the regular apartment class rate of 1.25 percent of market value. This will allow more buildings to be classified 4d. However, as under current law, only the proportion of qualifying units to the total number of units in the building qualify as class 4d.

Also allows low-income rental property that is receiving financial assistance from a local government (and whose units are subject to rent and income restrictions under the terms of those agreements) to qualify for the 4d classification. Under current law, properties must receive assistance from either the state of Minnesota or the federal government to qualify.

Adds another requirement for property to qualify for class 4d under certain conditions (see section 0).

Effective for taxes levied in 2007, payable in 2008, and thereafter.

- 15 Participation in crime-free multi-housing program. (a) Requires "qualifying property" under paragraph (b) to participate in a crime-free multi-housing program in order to receive the 4d property classification. If "qualifying property" is located in a city or county that offers a crime-free multi-housing program through its city police or its county sheriff, the owners or managers are required to complete the three phases of the program and annually be certified by the police or sheriff as participating in the program.

If the property is not certified within one year after its initial 4d classification, or does not annually maintain its program certification, the city or county shall notify the property owner that the property must be in compliance in order to maintain its 4d classification. If it is not in compliance within one year after receiving the notice, a second notice is issued and the owner has one year to comply. If the owner is still not in compliance, the Minnesota Housing Finance Agency (MHFA) shall be notified and the property shall be removed from the list of qualified 4d properties certified to the county assessor.

Once removed from the list, the property is not eligible for class 4d until the property owner complies with this subdivision. Certification to MHFA must be made by May 15<sup>th</sup> to be effective for taxes payable in the following year.

(b) Defines "qualifying property" as property that:

(1) is located in a city or county that offers a crime-free multi-housing program through its city police or county sheriff;

(2) police or sheriff calls over the preceding two-year time period, exceeded the average number of calls for multiunit rental properties in the jurisdiction, adjusted for number of units, by at least 25 percent;

(3) police or sheriff requested in writing that the owners or managers enroll in the crime-free program, and they refused or failed to enroll within 60 days, or failed to complete all three phases of the program with a specified time; and

(4) is determined by the governing body of the city or county to be qualifying property.

(c) Provides that calls for police or emergency assistance for medical needs or domestic abuse do not count toward the call limit in paragraph (b) clause (2).

(d) Requires property qualifying for 4d classification for taxes payable in 2007 to fulfill the

requirements of this section by May 15, 2010.

- 16 Effective for taxes levied in 2007, payable in 2008, and thereafter.  
Class 1c homestead resorts; class 1b homesteads of disabled and blind;

Homestead resorts class 1c property. Increases the amount of market value eligible for the first-tier classification rate of class 1c homestead resort property from \$500,000 to \$600,000 and decreases the class rate of the first tier from 0.55 percent to 0.50 percent. The proposed tier structure and class rates would be as follows:

Tier and Classification Rate			Market Value Eligible	
	Current Law	Proposed	Current Law	Proposed Law
I	0.55%	0.5%	\$0 - \$500,000	\$0 - \$600,000
II	1.0%	1.0%	\$500,000 - \$2,200,000	\$600,000 - \$2,300,000
III	1.25%, and subject to state general tax	1.25%, and subject to state general tax	Over \$2,200,000	Over \$2,300,000

Effective for taxes payable in 2008 and thereafter.

Resorts; definition. Defines a resort for purposes of this section. This was part of a recommendation from a Department of Revenue task force required by the 2005 Legislature. Currently there is no definition in statute and one is needed for uniformity. These changes are effective for assessment year 2008, taxes payable 2009 and thereafter.

Disabled homestead; class 1b. Increases the market value eligible for the 1b classification from \$32,000 to \$50,000. This class, which has a class rate of 0.45 percent, includes homestead property of persons who are blind and any person who is permanently and totally disabled. Language is stricken relating to veterans homesteads that is no longer needed because of the new veteran exemption in section 0.

- 17 Effective for assessment year 2007 and thereafter, payable 2008 and thereafter.  
Class 2; agricultural homesteads; rural vacant land.

Agricultural homesteads. Reduces the class rate on the first tier of agricultural homesteads from 0.55 percent to 0.5 percent of market value. For taxes payable in 2007, the first tier of agricultural market value is \$690,000. For taxes payable in 2008, the first tier will be \$790,000.

Effective for taxes payable in 2008 and thereafter.

Rural vacant land. Establishes a new rural vacant land classification that was recommended by a Department of Revenue task force. The new classification is intended to improve uniformity in valuing and classifying this type of rural land. The 2005 Legislature required the DOR to review this topic. The new subclass includes unplatted real estate that is rural in character and consists of at least ten acres, including land used for growing trees for timber, lumber, and wood products but not used for agricultural products. An ancillary nonresidential structure (i.e., a hunting shack) does not disqualify the property from this classification. The

establishment of this new subclass will aid assessors in classifying this rural vacant land that is now being classified differently.

The other changes made in the section are changes to references due to the addition of the new rural vacant land subclass.

Effective for assessment year 2007 and thereafter, payable in 2008 and thereafter.

18 Class 3. Clause (2). Increases the current class rate on personal property attached machinery of an electric generation system class rate from 2.0 percent to 3.0 percent.

Clause (3). Increases the current class rate on the personal property of all transmission and distribution systems from the current class rate of 2.0 percent to 2.25 percent. This includes systems that are part of a pipeline system transporting or distributing water, gas, crude oil or petroleum products, including attached machinery (item (i)); or that are part of an electric transmission or distribution system, including attached machinery (item (ii)). This includes transformers and substations.

No class rate changes are made to public utility real property (i.e., land and structures).

Effective for taxes levied in 2007, payable in 2008 and thereafter.

19 Class 4b and 4c; duplexes and triplexes; community service organizations; resorts definition.

Nonhomestead duplexes and triplexes. Reduces the class rate for nonhomestead (ag and non-ag) duplexes and triplexes to the same class 4b rate structure currently applying to the homestead and single-unit nonhomestead classes. Currently these properties have a class rate of 1.25 percent of market value. The proposed class rates are 1 percent on the first \$500,000 market value and 1.25 percent on the value over \$500,000. Vacant land classified as residential nonhomestead would continue to have a class rate of 1.25 percent.

Community service-oriented organizations. Expands the 4c property classification to nonprofit community service-oriented organizations that make charitable contributions and donations at least equal to the organization's previous year's property taxes and that allow the property to be used for public and community meetings or events at no charge, as appropriate to the size of the facility. This portion of class 4c has a class rate of 1.5 percent and is subject to the state general tax at the seasonal-recreational rate, which is about half of the commercial-industrial tax rate. Under current law, this type of property is classified as commercial class 3a (the first \$150,000 market value has a rate of 1.5 percent, the market value over \$150,000 has a rate of 2 percent, and the property is subject to the state general tax at the commercial-industrial rate).

Under current law, real property up to a maximum of one acre that is owned by a nonprofit community service-oriented organization qualifies for class 4c if the property is not used for revenue producing activity for more than six days in the calendar year preceding the year of the assessment. This section leaves that option, but adds a second alternative to qualify and extends the maximum land size to 3 acres. The acreage is made larger primarily to allow for parking lots, ball fields, etc. Provides that an organization qualifies if it makes annual charitable contributions and donations at least equal to the organization's previous year's property taxes and it allows the property to be used, size permitting, for public and community meetings or events for no charge. The types of organizations that would be affected by this

change are the VFWs, American Legions, Knights of Columbus, etc.

Defines "charitable contributions and donations" as having the same meaning as the lawful gambling purposes under section 349.12, subdivision 25, excluding those purposes relating to the payment of taxes, assessments, fees, auditing costs and utility payments. The allowable contributions and donations include: contributions to scholarship funds for defraying the cost of education; contributions to an individual or family suffering from poverty, homelessness, physical or mental disability; contributions for treatment for delayed posttraumatic stress syndrome or for the education, treatment or prevention of compulsive gambling; contribution or expenditures on a public or private nonprofit educational institution; recreation, community, and athletic facilities and activities intended primarily for persons under the age of 21; contributions to members of military marching or color guard unit; etc.

Defines "property taxes" as excluding the state general tax.

Requires the organization to maintain records of its charitable contributions and donations and of public meetings and events held on the property, and to make them available upon request at any time to the assessor to ensure eligibility. Requires an organization meeting these requirements to file an application by May 1 on a form prescribed by the commissioner of revenue.

Effective for the 2007 assessment and thereafter, taxes payable in 2008 and thereafter. For the 2007 assessment year, the application deadline is extended to September 15, 2007.

Resorts definition. Provides the same definition of a "resort" under this class 4c (commercial seasonal resorts) as in section 0 under the class 1c homestead resorts, as recommended by the Department of Revenue task force. Effective for assessment year 2008, payable 2009.

20 Classification of unimproved property. Contains a technical change due to the new rural vacant land changes in section 0.

21 Homestead of a disabled veteran. (a) Provides a market value exclusion for property taxation purposes for the homestead of an honorably discharged veteran who has a military service-connected disability of 50 percent or higher, as determined by the United States Department of Veterans Affairs.

(b) This new benefit would be tiered, as follows:

- \$100,000 market value exclusion, for a veteran with a service-connected disability rated as being at least 50 percent but less than 70 percent;
- \$150,000 market value exclusion, for a veteran with a service-connected disability rated at 70 percent to 100 percent; and
- \$300,000 market value exclusion, for a veteran with a service-connected disability rated as being *total and permanent*.

(c) Upon the death of the veteran, the market value exclusion benefit carries over to the

person's spouse, if the spouse co-owns or inherits the home.

(d) For an agricultural homestead, the market value exclusion applies to only the house, garage and surrounding one acre of land.

(e) Provides that property qualifying for a valuation exclusion under this subdivision is not eligible for the market value credit.

(f) The property owner must apply to the assessor each year, unless the person's disability is rated as *total and permanent*.

Note: Only a 100 percent service-connected disability can be rated as *total and permanent* by the US/DVA. However, most 100 percent disability ratings are not designated as being *permanent*, leaving open the possibility of the VA downgrading the rating should the person happen to recover somewhat.

22 Supplemental notice of proposed levy increases. (a) Requires a city with a population over 2,500 or a county that proposes a levy increase greater than the threshold increase calculated under (b) to prepare and deliver by first class mail a supplemental proposed property tax notice to each taxpayer in the jurisdiction.

(b) Provides that the threshold increase in the proposed property tax levy is equal to the previous year's levy, multiplied by (1) one percent, (2) the percentage growth, if any, in the population in the taxing jurisdiction for the most recent available year, (3) the percentage increase in the total market value in the taxing jurisdiction due to new construction of commercial and industrial property, and (4) the percentage increase in the implicit price deflator (IPD) for the most recent 12 month period ending March of the levy year.

(c) Requires the supplemental proposed notice to show the taxing jurisdiction's (1) levy for the previous year, (2) its threshold levy increase which indicates that the increase is calculated to reflect reasonable growth adjusting for population increases, increased demand from new business, and inflation, (3) the proposed property tax increase, and (4) the amount by which the proposed increase exceeds the threshold increase. The notice must contain a description of why the jurisdiction needs to raise its property taxes above the threshold amount and how they plan to spend the additional revenue.

Effective for taxes levied in calendar year 2007 and thereafter.

23 Joint public hearings; nonmetropolitan counties, cities, and school districts. (a) Allows the county to hold a joint public TnT hearing with the governing bodies of all of the taxing authorities located wholly or partially within the county that are required to hold a public hearing. States that the primary purpose of the joint hearing is for taxpayer efficiency by allowing taxpayers to come to a single public hearing to discuss the budgets and proposed levies of most of the taxing authorities that impact their property taxes.

(b) Provides that this joint public hearing applies only to counties located outside the seven county metropolitan area. If a city or school district is located partially within the seven metro counties, that taxing jurisdiction may participate in its nonmetropolitan county's joint hearing, at its own discretion.

(c) Provides that upon adoption of a resolution by the county board to hold a joint hearing, the county shall notify each city with a population over 500 and each school district that is located wholly or partially within the county of its intention to hold the joint hearing and ask each of the taxing authorities if they wish to participate. Participation is voluntary, but is in lieu of each authority's separate hearing.

(d) Provides that the joint hearing shall be held on the first Thursday in December. (That is the counties regularly scheduled date to hold their initial hearing.) Additional hearings may be held if taxing authorities want them.

Provides that the county board shall obtain a meeting space to hold the hearing, preferably at a public building such as a courthouse, school, or community center, and be as centrally located in the county as possible.

The meeting shall be structured in the following general manner:

- 1. 30-60 minutes, discussion of county's budget and levy;
- 2. 30-60 minutes, discussion of city's budget and levy, each city's discussion must be held in separate room, preferably in same building;
- 3. 30-60 minutes, discussion of school district's levy, each school district's discussion must be held in separate room, preferably in same building;
- 4. the last 30 minutes, reassemble the joint meeting with all governing bodies to entertain any follow-up questions.

An attempt should be made to keep the total public hearing time within 3 hours.

(e) Requires a single newspaper advertisement for the county and any city or school district that is participating in the joint hearing. This advertisement is in lieu of the individual newspaper advertisement that is required in current law. The cost of the advertisement is apportioned between the taxing authorities.

Provides that the formal adopting of the taxing authority's levy must not be made at this joint hearing, but rather at one of the regularly scheduled meetings of the taxing authority's governing body. The amount of the levy subsequently adopted cannot exceed the amount disclosed to taxpayers at the joint public hearing.

Effective for hearings held in 2007 and thereafter.

24

60 day rule; information. Itemizes what specific information is required in cases where a petitioner contests the valuation of income-producing property. It includes income and expense figures in the form of

(1) year-end financial statements for the year prior to the assessment date,

(2) year-end financial statements for the year of the assessment date, and

(3) rent rolls on the assessment date including tenant name, lease start and end dates, option terms, base rent, square footage leased and vacant space, verified net rentable square footage of the building or buildings, and anticipated income in the form of proposed budgets.

This will make it easier for the petitioners to know what information must be provided to the county assessor no later than 60 days after the filing deadline.

Effective for petitions filed beginning July 1, 2007.

25 Homestead property; monthly payment option. (a) Allows any owner of homestead property (residential, agricultural, and homestead resorts) to make their property tax payments in eight equal monthly installments from May 15<sup>th</sup> to December 15<sup>th</sup> (rather than the current two payments). Requires homeowners desiring that option of payment to apply to the county by April 15<sup>th</sup> of the year the taxes are payable.

(b) Requires counties to establish procedures allowing homeowners the option of paying current year's taxes on an 8 monthly basis. Each county's procedures must address how homeowners can participate, payment plans, including the possibility of automatic bank withdrawals, payment due date notifications, whether to require annual applications, how to modify the settlement process, and any other procedures the county board deems necessary to implement this new payment process.

(c) Requires that the application procedure must be included in the property tax statement mailing.

(d) Provides that the penalties on unpaid taxes under the monthly payment program are the same as under current law by equating the number of days that any of the monthly payments are overdue, corresponding to the current two payment dates.

Effective for taxes payable in 2008 and thereafter.

26 Class 3a property; confession of judgment. Increases the market value from \$200,000 to \$500,000 for commercial/industrial (C/I) property to enter into a confession of judgment. Under current law, owners of C/I property, with delinquent taxes, may enter into a confession of judgment with the county to set up a payment schedule to pay off the delinquent taxes over a 5-year time period. This value has not been increased for many years.

Effective for confessions of judgment entered into July 1, 2007, and thereafter.

27 Delinquent taxes. Allows partial payments to be made for payment of delinquent taxes. The manner in which they are credited is in the same order as under current law. Effective day following final enactment.

28 Property tax refund information in income tax instruction booklet. Requires the commissioner to provide a reference to property tax refunds on the cover of the individual income tax instruction booklet. Also requires information on income eligibility and maximum refund amounts within the instruction booklet.

Property taxes payable in 2006 and thereafter and rent paid in 2005 and thereafter.

29 Property tax refund claims. Extends the time period for filing property tax refund claims by an

additional year. The time period for filing the special property tax refund (i.e., targeting) remains as in current law.

Effective for property taxes payable in 2006 and thereafter, and rent paid in 2005 and thereafter.

30 Senior citizen property tax deferral program; qualifications. Makes two changes to the list of qualifications for the senior citizen property tax deferral program:

- Changes the age requirement so that at the time deferral is first granted only one spouse must be at least 65 years old. Requires the other spouse to be at least 62 years old. Under present law both spouses must be at least 65 years old for a married couple to qualify for the deferral.
- Increases the maximum income eligible for deferral applications filed on or after July 1, 2007, from the \$60,000 under current law to \$75,000.

31 Senior citizen property tax deferral program; eligibility. Prohibits individuals who are owners of a life estate or who are purchasing the homestead under a contract for deed or as a remainderperson from participating in the senior deferral program. In these situations the lien imposed for the deferred amount could be subordinate to other claims when the property is sold.

32 Senior citizen property tax deferral program; excess income certification by homeowner. Requires the homeowner to notify the commissioner if their household income exceeds the maximum \$75,000 allowed for program participation. This conforms to the program expansion in section 0.

33 Senior citizen property tax deferral program; resumption of eligibility. Provides that a homeowner who became ineligible due to having income over the \$75,000 maximum allowed may resume participation in the deferral program if their household income falls below the maximum in a subsequent year. Conforms to the program expansion in section 0.

34 Senior citizen property tax deferral program; determination by commissioner. Increases the maximum household income eligible for program participation from \$60,000 to \$75,000.

35 Senior citizen property tax deferral program; interest on deferred amounts. Provides that the state will not charge interest on deferred property taxes beginning with property taxes payable in 2008 for current program participants, and all amounts deferred for homeowners applying on or after July 1, 2007. Under current law the interest rate is the same rate used by the Department of Revenue for income and sales tax refunds, except that in the deferral program the rate is limited to a maximum of five percent interest, calculated annually and added to the total amount deferred.

36 Sustainable forest incentive payments. Increases the guarantee level for the sustainable forest incentive program from \$1.50 per acre to \$5 per acre. The formula in current law for determining the payment is based upon the greater of two different property tax calculations or \$1.50 per acre. Using that formula, the current payments are \$5.24 per acre. Effective for payments made in 2008 and thereafter

37 Seasonal recreational property tax deferral program. Establishes the "seasonal recreational property tax deferral program" (sections 0 to 0).

38 Terms.

Subd. 1. Terms. Defines the terms used in this section.

Subd. 2. Primary property owner. "Primary property owner " means a person (1) who has been the owner, or one of the owners, of the eligible property for at least 15 years prior to filing the application to be in the program; and (2) applies for the deferral of the property taxes.

Subd. 3. Secondary property owner. "Secondary property owner" means any person, other than the primary property owner, who has been an owner of the eligible property for at least 15 years prior to the year the initial application is filed for deferral of property taxes.

Subd. 4. Eligible property. "Eligible property" means a parcel of property or contiguous parcels of property under the same ownership and classified as noncommercial seasonal residential recreational property (i.e., cabins).

Subd. 5. Base property tax amount. "Base property tax amount" means the total property taxes levied by all taxing jurisdictions, including special assessments, on the eligible property in the year prior to the year that the initial application is approved and payable in the year of that application.

Subd. 6. Special assessments. "Special assessments" mean any assessment, fee, or any other allowable charge that appears on the property tax statement for the property.

Subd. 7. Commissioner. "Commissioner" means the commissioner of revenue.

39 Qualifications for deferral. Defines the criteria needed for a property to qualify for deferral:

(1) the property must have been owned by the primary owner for at least 15 years prior to enrolling in the deferral program;

(2) there can be no state or federal tax liens or judgment liens on the property;

(3) there can be no mortgages or other liens on the property except for those subject to the credit limits under clause (4); and

(4) the total amount of secured debt on the property, including mortgages and other liens, delinquent special assessments, and delinquent property taxes, but not including the current year's property taxes, may not exceed 60 percent of the property's estimated market value.

40 Application for deferral.

Subd. 1. Initial application. (a) Requires an owner of a qualified property to file an application on or before July 1 of any year in order for property taxes payable in the forthcoming year to qualify for deferral. The application must include:

(1) the name, address and social security number of the primary owner and any secondary owners;

(2) a copy of the current year's property tax statement;

(3) the initial year of ownership of the primary owner and any secondary owners;

(4) information on all loans secured by mortgages or other liens on the property; and

(5) the signature of the primary owner and all other owners, stating that they agree to having the property enrolled in the program.

The application must state that program participation is voluntary, including authorization for the annual deferred amount. Provides that the deferred tax amount is public data.

(b) Allows the commissioner of revenue to ask for a report by a licensed abstracter in the case of abstract property seeking enrollment in the deferral program.

Subd. 2. Approval; recording. Requires the commissioner of revenue to notify applicants of enrollment prior to December 1 for taxes payable in the following year, and to file a notice of qualification for deferral with the county recorder.

Subd. 3. Penalty for failure; investigations. Requires the commissioner to assess a penalty equal to 20 percent of the deferred tax in the case of a false application, or 50 percent in the case of the taxpayer knowingly filing a false application.

Subd. 4. Annual certification to commissioner. Requires the primary property owner to certify annually by July 1 that the property continues to qualify for the program. Requires that if the primary owner has died or has transferred the property, the primary owner's spouse or a secondary owner may make the certification, and in that case that person will become the primary owner. Provides that if neither the primary owner, the primary owner's spouse nor a secondary owner are eligible to file the annual certification, the property's participation in the program will terminate and payment of the deferred taxes must be made.

Subd. 5. Annual notice to primary owner. Requires the commissioner of revenue to annually notify the primary owner of the total amount of deferred taxes for each participating property.

41 Deferred property tax amount.

Subd. 1. Calculation of deferred property tax amount. Provides that the deferred tax amount for a qualifying property each year is 50 percent of the amount by which the current year's property tax (including special assessments) exceeds the property taxes in the base year (year of application). Provides that any tax attributable to improvements made to the property since the base year are not subject to deferral. Also provides that the deferred tax amount is to be shown on the tax statement.

Subd. 2. Certification to commissioner. Provides that the county auditor shall annually certify the amount of deferred taxes to the commissioner of revenue for each qualifying property.

Subd. 3. Limitation on amount of deferred taxes. Provides that the total amount of deferred taxes on a property, when added to any unpaid special assessments and/or property taxes and the balance owed on any mortgages at the time of application and the amount of other secured liens at the time of application, must not exceed 60 percent of the property's estimated market value.

42 Lien; deferred portion. (a) Provides that interest on the deferred taxes will accrue at a rate not to exceed two percent more than the interest rate on deferred taxes under the senior deferral program in chapter 290B.

(b) Provides that the deferred taxes become a lien on the property. Contains standard language pertaining to what happens when the property taxes are not paid on the property participating

in the program.

43 Termination of deferral; payment of deferred taxes.

Subd. 1. Termination. (a) Provides for program termination whenever:

(1) the eligible property is transferred to someone other than the primary owner's spouse or a secondary owner;

(2) the primary owner dies, or in the case of a married couple both spouses die, provided that there is not a secondary owner eligible to become a primary owner;

(3) the owners notify the commissioner of revenue that they no longer wish to participate in the program; or

(4) the property no longer qualifies for deferral.

(b) Provides that a property is not terminated from the program just because no taxes are deferred in any given year.

(c) Provides that if an eligible property becomes the homestead of one of the owners, and if the homeowner qualifies for the senior deferral program, the deferred tax under the seasonal-recreational deferral program will be rolled-over to the senior deferral program.

Subd. 2. Payment upon termination. Provides that the deferred taxes become due and payable within 90 days of termination if the primary owner dies or transfers the property, or within one year if the owners opt-out of the program or if the property ceases to remain eligible.

44 State reimbursement. Provides that the state will pay the deferred tax amount to each county treasurer by August 31 of each taxes payable year. Appropriates to the commissioner of revenue annually a sum sufficient to pay the deferred tax amounts.

45 Town of Scambler, Otter Tail County, aggregate tax. Authorizes the Town of Scambler to impose an aggregate (gravel) tax if one is not imposed by Otter Tail County. Provides that in lieu of the normal distribution of the gravel tax, all of the tax proceeds will be retained by the Town of Scambler. If the county imposed the tax, the normal distribution would be: county road and bridge fund, 60 percent; city/town for roads and bridges, 30 percent; restoration of abandoned pits, 10 percent.

Further provides that if at some later time Otter Tail County imposes a gravel tax, the gravel tax authorized under this subdivision would be repealed on the effective date of the Otter Tail County tax.

Effective upon local approval by the governing body.

46 Hardship assessment deferral; military persons. Extends the option to defer certain assessments to members of the National Guard and military reserves ordered into active service. Currently a county, city, or town, at its discretion may defer the payment of special assessment for any homestead property of seniors and disabled persons that it determines causes a hardship. This section adds National Guard and reserve members in active service to that authorization.

Effective day following final enactment and applies to any special assessment for which payment is due on or after that date.

47 Abatement; delinquent taxes. Extends economic development property tax abatement authority to delinquent taxes, penalties, and interest, thereby allowing political subdivisions to include those amounts in any property tax abatement they grant. Present law limits this authority to the current year taxes. These property tax abatements may be used for economic development, such as to encourage a business to locate or expand in a given area, as well as to finance public infrastructure or to phase-in large tax increases. The abatements may be either permanent forgiveness or a temporary deferral of property tax. This authority was given to counties, cities, towns, and school districts in 1997 to provide an alternative to TIF and to supplement it.

Paragraph (b) provides that if delinquent taxes are abated, the years for which they are abated are included in computing the duration limits.

Effective for abatements granted after December 31, 2006.

48 Use of proceeds; fiscal disparities. Technical section eliminating a cross-reference due to the repealer in section 0.

49 Area wide tax rate; fiscal disparities. Technical section eliminating a cross-reference due to the repealer in section 0.

50 Certification of values; fiscal disparities. Technical section eliminating a cross-reference due to the repealer in section 0.

51 Street maintenance and lighting; Minneapolis. Amends special law for the city of Minneapolis relating to street maintenance and lighting to allow the city to pay from city general revenues part or all of the construction and operation, as well as maintenance, of streets and lighting.

52 Exchange of tax-forfeited land; private sale; Itasca County. Exempts certain lands in Itasca County that have been acquired through an exchange from the tax-forfeited land assurance fee. The proposed land sale is about \$6 million; hence, the 3 percent fee would be about \$180,000.

Tax forfeited land is subject to a three percent assurance fee at the time of sale. It is collected by the county auditor and sent to the State and deposited in the general fund. Historically, this fee and fund were established to assure the tax-forfeiture process in Minnesota and that if any person was awarded damages relating to tax-forfeited transactions, the amount would be paid for through this assurance fund.

Effective the day following final enactment.

53 Fiscal disparities study. Requires the commissioner of revenue to conduct a study of the metropolitan fiscal disparities program and make a report to the house and senate tax committees by February 1, 2008. The study is to consider whether the fiscal disparities program is meeting the following goals, and what changes could be made in furtherance of the goals:

- 1) Reducing the extent to which the property tax system encourages inefficient development patterns
- 2) Ensuring that the benefits of economic growth are shared throughout the region
- 3) Allowing taxing jurisdictions to deliver services in proportion to their tax effort

- 4) Compensating jurisdictions for low-tax-yield properties that provide regional benefits
- 5) Promoting a fair distribution of tax burdens across the region
- 6) Reducing economic losses from competition for commercial-industrial tax base.

Effective July 1, 2007.

54 Improving public awareness and participation in property tax relief programs. Requires the commissioner of revenue, in consultation with county officials, to undertake to improve the public's awareness of and participation in property tax refund programs, including the regular homeowner and renter and the additional refund (i.e., targeting), the senior property tax deferral program and the seasonal recreational property tax deferral program.

Provides a list of options that the commissioner must consider (including, but not limited to):

- (i) direct mailings to homeowners;
- (ii) an insert in the property tax statement;
- (iii) more prominent and direct references to the programs on the property tax statement;
- (iv) notification on the property tax statement envelopes or folders;
- (v) public service announcements, including print, broadcast, and internet; and
- (vi) information and handouts at the truth in taxation hearings.

Effective the day following final enactment.

55 Truth in taxation program: Costs and participation study. Requires the commissioner of revenue to prepare a study of the costs of the truth in taxation (TnT) program and the level of taxpayer participation in the hearings. The costs of preparing and mailing the TnT notices, the newspaper advertisements, and any costs associated with the public hearings must be included. The report must also make recommendations for ways to increase taxpayer participation in the local government budget process, including but not limited to the truth-in-taxation process. The report must be delivered by January 15, 2008, to the chairs of the senate and house committees and divisions with jurisdiction over property taxes.

Effective the day following final enactment.

56 Clair A. Nelson Memorial Forest; Lake County; temporary suspension of apportionment of tax-forfeited land proceeds. (a) Provides that upon approval of an affected political subdivision within Lake County, the Lake County Board may suspend the apportionment of the balance of net proceeds from the tax-forfeited lands within those subdivisions and retain those proceeds until Lake County is reimbursed for the purchase in 2006 of 6,085 acres of forest land named the Clair A. Nelson Memorial Forest. The amount is \$2,200,000 plus any

interest costs incurred by the county.

The county auditor is to make annual settlements and distributions of the "net revenue" in the county's tax forfeited sale fund as part of the regular May settlement of property tax receipts. (This apportionment is after certain authorized expenditures have been taken out of the fund.) The law specifies the distribution as follows:

- (1) to reimburse municipalities for any special assessments levied after the parcel's forfeiture;
- (2) to pay for Minnesota Pollution Control Agency or Department of Agriculture costs of response actions for the control of hazardous waste;
- (3) to reimburse municipalities for any special assessments levied before the parcel's forfeiture;
- (4) set aside up to 30 percent of the remaining balance for forest development;
- (5) set aside up to 20 percent of the remaining balance for acquisition and maintenance of county parks or recreational areas; and
- (6) any remaining balance is apportioned 40 percent to the county, 20 percent to the city or town, and 40 percent to the school district.

This section suspends the amount in the above apportionment in clause (6) and uses that amount to reimburse Lake County for its costs.

(b) Provides that any revenue derived from the 6,085 acres of forest land under paragraph (a) is subject to the above apportionment.

Effective retroactively to January 1, 2006.

57 Lakeview Cemetery Association.

Subd. 1. Authorization. Allows any two or more of the following municipalities to enter into a joint powers agreement to create the Lakeview Cemetery Association with the powers and duties of a cemetery association: the cities of Coleraine, Bovey, Taconite, Marble, and Calumet, and the towns of Iron Range, Lawrence, Greenway, and Trout Lake.

Subd. 2. Additions; withdrawals. Allows any of the eligible municipalities that do not join the association initially to join later. Allows any cities or towns that are members of the association to withdraw from the association.

Subd. 3. Operation; tax levy. Allows the joint powers agreement to provide for each participating city or town to levy a tax on all of the taxable property in the city or town for the association, not to exceed \$200,000 per year. If levied, the tax is in addition to all other taxes on the property, including taxes permitted to be levied for cemetery purposes by the city or town and must be disregarded in the calculation of all other rate or per capita levy limitations imposed by law. The tax shall be collected by the Itasca

County auditor/treasurer and paid directly to the Lakeview Cemetery Association.

Background. Laws 1994, chapter 587, article 9, section 8, allows the town of Iron Range and the cities of Coleraine and Bovey to levy a tax and make an appropriation not to exceed \$15,000 annually to the Lakeview Cemetery Association. The annual amount was increased to \$25,000 in the 2005 omnibus tax law, effective for taxes payable in 2006 and thereafter. That law is repealed when the association levies under this section.

Effective for taxes levied in 2007, payable in 2008 and thereafter.

- 58 Tax-forfeited land lease; Itasca County. Permits the Itasca County auditor to lease tax-forfeited land to Minnesota Steel for a period of 20 years for use as a tailings basin and buffer area. The lease is renewable. Effective day following final enactment.
- 59 Repealer. (a) Repeals statutory provision requiring the city of Bloomington to make additional payments to the fiscal disparities pool over a ten-year period from 2009 to 2018 as repayment for additional distributions received from 1988 to 1999.

Background : As the Mall of America project was being considered in the mid-1980s, MnDOT plans called for improvements to be made to Hwy. 77 in the vicinity of the Mall site sometime in the mid-1990s. An agreement was reached between the state and the city of Bloomington to issue bonds to make the improvements ten years early. The state was to pay the principal at the time the improvements were scheduled to be made, and the interest payments were to be made by the fiscal disparities pool. The interest payments from the fiscal disparities pool (\$48.6 million) were considered to be a "loan" to the city of Bloomington - in return, Bloomington was to repay the pool over a ten-year period beginning in 2000. The legislature has delayed the start of the repayment twice, so that it is now scheduled to begin with taxes payable in 2009.

Effective for taxes payable in 2008 and thereafter.

(b) Repeals the section of the 1973 special law that requires the city to include the prior year's assessments for street maintenance in the calculations of aggregate receipts for purposes of levy limits if the city pays for street maintenance out of general revenues. There are no levy limits at this time.

(c) Repeals the existing law governing the Lakeview Cemetery Association, effective when the Association first levies under the authority granted in section 0.

## Article 4: Corporate Franchise Tax

### Overview

This article substantially revises the corporate franchise tax's foreign income provisions. It repeals:

- The foreign operating corporation provisions
- The foreign royalty subtraction
- The dividend received deduction for dividends, paid by a member of the unitary group of the recipient

It modifies the combined reporting method by requiring the following entities in the combined report:

- Foreign affiliates with 20 percent or more of their property, payroll, and sales in the United States
- Foreign affiliates treated as domestic corporations under federal law
- Controlled foreign corporations (CFCs) with subpart F income

Unitary businesses would be allowed to elect to file on a worldwide unitary basis (i.e., to include all of their foreign corporations' factors and income on the combined report). This election would apply for a 5-year period.

Accelerates the adoption of single sales apportionment under the corporate franchise tax to tax year 2008. For tax year 2007, the sales percentage is increased from 78 percent to 82 percent.

Allows a one-time subtraction in tax year 2007 for outstanding amortization for pollution control facilities placed in service before 1987.

- 1 Return filing requirement. Eliminates a reference to FOCs in the return filing statute. Sections 0and 0repeal FOCs.
- 2 Definition; domestic corporation. Modifies the definition of domestic corporation to include the following entities:
  - Foreign affiliates with 20 percent or more of their property, payroll, and sales in the United States
  - Foreign affiliates treated as domestic corporations under federal law
  - Controlled foreign corporations (CFCs) that have subpart F income (i.e., income that federal law treats as domestic income for federal purposes)

3 Additions to taxable income; corporations. Makes three changes in the additions to federal taxable income for corporations:

This section eliminates the addition for amortization amounts allowed under federal law for pollution control facilities placed in service before tax year 1987. The addition and subtraction were necessary because Minnesota did not conform to the accelerated amortization schedule allowed at the federal level for facilities placed in service before 1987. Section 0 strikes the corresponding subtraction for amortization amounts for these facilities allowed at the state level, and section 0 allows a one-time subtraction in tax year 2007 for the remaining state amortization deductions.

It repeals the requirement to add back FOC deemed dividend and replaces it with an addition for payments made to a foreign corporation that is a member of the unitary business that does not elect to file on a worldwide unitary basis. To be subject to this new addition the payments must constitute the type of income that is defined as foreign personal holding company income under federal law. This is intended to prevent foreign multinationals from using transfer pricing to shift income to foreign affiliates in tax haven countries.

It conforms to the federal law regarding the anti-deferral rules for subpart F income. Present law requires the income permitted to be deferred by federal law to be recognized in the current year.

4 Subtractions from taxable income; corporate franchise tax. Makes five changes:

Work opportunity credit. Changes a reference to the former "federal jobs credit" to the current "work opportunity credit," following the change in the Internal Revenue Code.

Pollution control facilities. Strikes the subtraction for amortization amounts allowed at the state level for pollution control facilities placed in service before tax year 1987.

Foreign royalties. Repeals the foreign royalty subtraction. Present law allows recipients of royalty and similar payments from foreign corporations or FOCs to subtract 80 percent of these payments from income. The paying corporation must be part of the unitary business. Royalties often represent payments for use of intellectual property (patents, copyrights, trademarks, processes, and so forth) or similar payments. A typical situation would be a patent developed by the U.S. parent and licensed to a foreign subsidiary or FOC.

Environmental tax refunds. Strikes the obsolete subtraction for federal environmental tax refunds. The federal environmental tax was repealed in 1997, and the corresponding addition to Minnesota taxable income was repealed in 2005.

Subpart F income subtraction. Conforms to federal law on the subpart F income deferral rules, eliminating the special subtraction for this income when recognized for federal purposes.

5 Corporate alternative minimum tax. Corrects cross-references in the corporate AMT's definition of taxable income and eliminates a cross reference to the deduction for foreign royalties that is eliminated by section 0.

6 FOC repeal. Eliminates the substantive FOC provisions that exclude an FOC and its income

and apportionment factors from the unitary group and treats its income as a "deemed dividend" (i.e., qualifying for an 80 percent deduction from income). CFCs that are defined as domestic corporations under section 0 would be required to include only their subpart F income under federal law (i.e., income that federal law treats as domestic income) in the combined report, unless they elect worldwide unitary under section 0.

7 Worldwide unitary election. Allows a unitary business to elect to file its returns on a worldwide unitary basis (i.e., including the income and apportionment factors of all the foreign corporations that are members of the unitary business). The election must be made in the form and manner prescribed by the commissioner of revenue. It applies to the current and next four taxable years. A revocation of election can take effect no sooner than two years after filing with the commissioner, but not before the four-year period of the initial election has run. The commissioner can waive the timing requirements, if it is necessary to reflect the income fairly attributable to the state.

If an electing corporation acquires a non-electing corporation, and the acquired corporation has Minnesota taxable income equal to 20 percent or more of the acquiring corporation, the acquirer would be allowed to revoke its election without regard to the time limits. If an electing entity is acquired by a non-electing entity, the election is revoked. Liquidation also revokes an election.

8 Corporate franchise tax; apportionment formula. Accelerates Minnesota's adoption of single sales apportionment to tax year 2008. The table compares the schedules for adopting apportionment using only the sales factor under present law and as proposed by the bill.

Tax year	Sales Percentage	
	Present Law	Proposed
2007	78%	82%
2008	81%	100%
2009	84%	100%
2010	87%	100%
2011	90%	100%
2012	93%	100%
2013	96%	100%
2014	100%	100%

9 Apportionment formula; financial institutions. Makes a conforming change in the apportionment formula for financial institutions to reflect adoption of single sales apportionment under section 0.

10 Sales factor; services provided to mutual fund companies; conforming change. Modifies the definition of the sales factor for sales of services to mutual funds (regulated investment companies). Under present law, these sales are treated as sales made to the mutual fund itself (i.e., they are sourced to the mutual fund's fixed place of business). This section provides that these sales will be determined based on the mailing address of the shareholders of the fund with computations made on a monthly basis.

If an insurance company is the shareholder (e.g., for a variable annuity), the corporation (i.e., the entity selling services to the mutual fund) is allowed to make an irrevocable election to treat the policyholders as the shareholders for purposes of this definition. A

similar option would not apply to institutional investors, such as administrators of 401(k) plans, which would be treated as sales to the administrator of the plan.

This reverses the Minnesota Supreme Court decision (in favor of the Department of Revenue) in *Lutheran Brotherhood Research Corp. v. Commissioner of Revenue*, 656 N.W.2d 375 (Minn., 2003).

This section also makes a conforming change in the definition of the sales factor to reflect the elimination of FOCs.

- 11 Dividend received deduction. Provides that the dividend received deduction does not apply to dividends received from a corporation that is part of a unitary business and that is not eliminated as a result of filing a combined report. This will affect dividends received from some foreign corporations, where no election is made to file on a worldwide basis.
- 12 Transition; pollution control facilities amortization. Allows a one-time tax year 2007 subtraction for outstanding amortization on pollution control facilities placed in service before tax year 1987 to replace the addition and subtraction that sections 0and 0eliminate.
- 13 Repealer. Repeals the FOC definition and the FOC provision of the corporate alternative minimum tax.

## Article 5: Individual Income Tax

### Overview

Imposes a new 9 percent individual income tax rate that applies at \$400,000 of taxable income for married joint filers (adjusted for other filing statuses).

Conforms Minnesota's income tax to federal changes enacted since May 18, 2006, for tax year 2007 and following years. Principal items are:

- deduction for higher education tuition expenses
- deduction for teacher classroom expenses
- allowance of IRA contributions by members of the military with income primarily from nontaxable combat pay
- allowance of direct transfers to charities from traditional IRAs and Roth IRAs
- various limits on charitable contributions
- making the increased contributions limits to various retirement plans (IRAs, 401(k)s, and so forth) permanent

Laws 2007, chapter 1, conformed to these items for tax year 2006 only. This article conforms for tax year 2007 and following years, and also retroactively to tax years 2004 and 2005 for the provision relating to IRA contributions based on nontaxable combat pay

Clarifies that the income tax subtraction for out-of-state military service applies to National Guard service under Title 32 of the U.S. Code, and reinstates an individual income tax subtraction for national service education awards.

Provides a onetime credit of up to \$50,000 for expenditures made to modernize dairy animal operations in Minnesota. The credit equals 10 percent of expenditures made in tax years 2007 through 2012.

Increases the military service combat zone credit from \$59 per month to \$120 per month, effective for service after December 31, 2006.

Provides a refundable credit for rehabilitation of historic properties.

Provides for the income threshold at which the alternative minimum tax (AMT) exemption amount begins to phase out to be adjusted annually for inflation.

Eliminates the exclusion from taxable income for wages that were earned when the taxpayer was a Minnesota resident and received when the taxpayer was not a Minnesota resident.

Requires construction contractors to withhold 2 percent of payments to independent contractors who are individuals.

- 1 Update of tax administration provisions. Adopts federal tax administrative provisions made between May 18, 2006, and December 31, 2006, that Minnesota references for state tax administration purposes under chapter 289A. None of the three federal acts enacted since May 18, 2006, changed federal provisions that Minnesota provisions refer to in chapter 289A.

Effective the day following final enactment.

- 2 Information reporting. Requires payers who federal law requires to file Form 1099 information with the IRS for contractor payments to also file a copy of the return with DOR. This applies if the payments either were made to a Minnesota resident or if the services were performed in the Minnesota. The commissioner may require the information to be filed electronically.

Present law gives the commissioner of revenue authority to require this information to be filed by notice and demand to the payer.

- 3 Update to federal definition of taxable income. Adopts all of the federal changes to taxable income effective when the federal changes became effective, for tax year 2007 and following years. Laws 2007, chapter 1 (H.F. 8), adopted these same changes but for tax year 2006 only. The three new federal laws and important changes were:

The Heroes Earned Retirement Opportunities Act, Public Law 109-227, enacted May 29, 2006, which allows military personnel to count tax-exempt combat pay as earned income for the purpose of qualifying to make tax deductible contributions to individual retirement accounts, effective retroactively to tax year 2004.

The Pension Protection Act of 2006, Public Law 109-280, enacted August 17, 2006, which made a large number of changes to federal provisions relating to employer-provided defined benefit or contribution plans, IRAs, and Keogh plans, and included a number of provisions relating to charitable contributions. Most of the changes effective in tax year 2006 relate to charitable contributions and not to pensions. Chief among these are:

- authorizes individuals age 70½ or older to transfer up to \$100,000 from a traditional IRA or Roth IRA directly to a qualified charity, while excluding that amount from adjusted gross income
- limits the charitable deduction of used household items and clothing to items in good used condition, and requires an appraisal for donations of items valued over \$500
- limits the deduction for charitable donations of taxidermy items to the cost of

stuffing or mounting the animal

- disallows the deduction of fractional interests in personal property if the donor and receiving charity do not own the total interest in the property after the gift
- extends the ability of individuals to deduct cost plus 50 percent of market value over cost of the donation of food held as inventory
- extends the enhanced charitable contribution deduction for donations of books and computers to schools
- modifies the federal adjusted gross income limitation on charitable deductions for donations of qualified conservation easements to 50 percent (but coordinates this with the percentage limits on other charitable contributions) from the old 20 percent or 30 percent limit. The 50 percent limit is raised to 100 percent for farmers and ranchers (individuals with 50 percent of gross income from farming/ranching)
- tightens the restrictions on claiming a charitable deduction for façade easements on historic buildings
- limits the basis adjustment in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this will reduce capital gain on later sales of the S corporation stock, compared with prior law)
- allows an annual exclusion of \$3,000 of distributions from governmental pension plans to pay qualified health insurance premiums for eligible public safety retirees
- makes various increases in the permitted annual contributions to retirement plans, such as IRAs, 401(k)s, 403(b), and 457 plans, permanent

The Tax Relief and Health Care Act of 2006 , Public Law 109-432, enacted December 20, 2006, extended several expiring deductions, implemented new provisions related to health savings accounts, and provided a new itemized deduction for mortgage insurance premiums. Only the extensions of expiring deductions are effective in tax year 2006. These are:

- extends the higher education tuition expense deduction of up to \$4,000
- extends the teacher classroom expense deduction of up to \$250
- extends the option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid (Minnesota taxpayers will be unaffected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax)

- extends allowance of 15 year depreciation of restaurant buildings and leasehold improvements
- extends the deduction for amounts contributed to Archer medical savings accounts
- extends expensing for brownfield cleanups
- allows advanced mine safety equipment purchased after December 20, 2006, and before December 31, 2008, to be expensed at up to 50 percent of its cost, with the remainder depreciated

4 Subtractions from taxable income; out-of-state military service of National Guard and national service education awards.

Out-of-state military service by National Guard. Clarifies that the 2005 enactment that exempts from state taxation a filer's earnings for out-of-state military service applies to National Guard personnel in the same manner that it is currently being applied to other Military Reservists. Federal law defines the term *active duty* for military Reservists other than the National Guard in Title 10 of United States Code, but for National Guard personnel in Title 32 of federal code (in nearly identical language). This section clarifies that both of these federal definitions apply to the subtraction for active duty pay for service outside Minnesota and, thus, that National Guard members, like Reservists, qualify for this Minnesota tax deduction on all out-of-state military earnings. This would extend the subtraction to

- basic training at out-of-state military facilities
- special training and annual training at out-of-state military facilities
- Mexican border patrol duty

Effective retroactively, for tax year 2005 and thereafter.

National service education awards. Provides an individual income tax subtraction for national service education awards, also referred to as "YouthWorks" scholarships.

Background. An income tax subtraction was allowed for these awards for tax years 1997 through 2004. In 2005, this subtraction was repealed with the understanding that the scholarships were no longer being awarded, making the subtraction obsolete. While state funding for scholarships had been discontinued, it has been supplanted by federal funding, with the result that the subtraction was not obsolete. This section would reinstate the subtraction that was in effect from 1997 to 2004.

5 Update to other references to the Internal Revenue Code in chapter 290. Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and household income which is used to compute the dependent care and K-12 education credit for tax year 2007 and following years. Laws 2007, chapter 1 (H.F. 8),

adopted these same changes but for tax year 2006 only. The main changes to federal adjusted gross income are described in section 0.

6 Individual income tax rates. Adds a new 9 percent income tax rate that would apply to taxable income over

- ▶ \$400,000 for married joint filers (\$200,000 for married separate)
- ▶ \$226,230 for single filers
- ▶ \$340,720 for head of household filers

Adjusts the brackets for the current law 5.35, 7.05, and 7.85 percent rates to the levels in effect for tax year 2007 under current law as a result of annual adjustments for inflation.

7 Inflation adjustment of brackets. Re-sets the base year for adjusting the income tax brackets for inflation to 2007.

8 Dairy investment credit. Allows a dairy investment credit against individual income and corporate franchise taxes. The credit equals 10 percent of the first \$500,000 of qualifying expenditures for the acquisition/construction/improvement of buildings or facilities, the development of pasture, and the acquisition of certain equipment if related to dairy animals in Minnesota. Qualifying equipment includes: barns; fences; watering facilities; feed storage and handling equipment; scales; milking, robotic, and milk storage equipment; manure management facilities including digesters and energy production equipment; on-farm dairy processing equipment and refrigerated delivery trucks.

The credit is nonrefundable and may only be used to offset liability. Unused credit amounts may be carried forward for up to 15 tax years.

A taxpayer may claim the credit for expenditures made between December 31, 2006, and January 1, 2013. The maximum credit is \$50,000; this maximum applies to entities such as partnerships and S corporations as well as to individual taxpayers.

9 Dependent care credit. Extends the dependent care credit allowed for parents who operate a licensed family day care home and care for their own child to apply to children under age 13. Under present law, parents who operate a licensed family daycare home at which they care for one or more of their own children who are under age six are deemed to have dependent care expenses and may claim the state dependent care credit. The deemed expenses for children up to 16 months of age equal the \$3,000 maximum allowed for the federal dependent care credit, and for children over 16 months but under six years of age equal what the parent would charge for the care of a child of the same age. The maximum credit allowed for affected parents would be \$720 for one child age six to 12 and \$1,440 for two or more children age six to 12.

10 Military service combat zone credit. Increases the credit for military service in a combat zone or qualified hazardous duty area from \$59 per month to \$120 per month, effective for service after December 31, 2006. Eligible areas include the Arabian Peninsula Areas, the Kosovo area, Afghanistan, and supporting areas. The \$59 per month credit would continue to apply for service from September 11, 2001 through December 31, 2006.

Also allows the estate or heirs at law of a deceased member of the military to retroactively claim the credit for combat service that occurred before January 1, 2006. Current law allows only a surviving spouse or dependent to claim the credit on behalf of individuals who died

before January 1, 2006, and only if the member of the military died as a result of combat zone activity. Current law also allows for the credit to be claimed on a deceased individual's final return for individuals who die on or after January 1, 2006. This change will allow the credit to be claimed for all combat zone service since September 11, 2001, by the estate or heirs at law of deceased members of the military who do not have a surviving spouse or dependent, and who died before January 1, 2006. Effective retroactively for tax years beginning after December 31, 2005.

11 Credit for historic structure rehabilitation.

Subd. 1. Definitions. Defines "certified historic structure," "eligible property," and "structure in a certified historic district" for the purposes of determining eligibility for the tax credit.

Subd. 2. Credit allowed. Allows a credit equal to the federal credit for rehabilitation costs of historic properties. Applies only to projects placed in service in 2007 and following years. The federal credit equals 20 percent of qualifying rehabilitation costs of income-producing properties that are either on the National Register of Historic Places, or are designated historic structures in registered historic districts. The federal credit is limited to projects in which costs exceed the greater of \$5,000 or 100 percent of the property's basis before rehabilitation, and the project that are approved by the National Park Service before rehabilitation begins.

Subd. 3. Partnerships; multiple owners. Requires partners or multiple owners to pass the credits on a pro rata basis.

Subd. 4. Credit refundable. Provides for credits in excess of liability to be refunded to the taxpayer.

Subd. 5. Appropriation. Appropriates money from the general fund to pay refunds under this section.

Subd. 6. Manner of claiming. Allows the commissioner of revenue to specify the manner in which the credit is to be claimed, including allowing the credit as a separately processed claim for refund.

Subd. 7. Report; economic impact. Requires the Minnesota Historical Society to determine the economic impact of the credit and report to the legislative committees on taxes on an annual basis.

12 Alternative minimum tax; exemption amount. Provides for the income threshold at which the alternative minimum tax (AMT) exemption amount begins to phase out to be adjusted annually for inflation. Under current law the AMT exemption amount is adjusted annually for inflation, but the income level at which the exemption amount begins to phase out is not adjusted. The table shows the exemption amount and income range over which the exemption phases out for tax year 2007.

	Exemption amount	Phaseout begins	Phaseout ends
Married Joint	\$62,340	\$150,000	\$399,360
Married Separate	\$31,170	\$75,000	\$199,680
Single/Head of Household	\$46,760	\$112,500	\$299,540

Also clarifies that the exemption amount and the income threshold for the phaseout of the

alternative minimum tax exemption are indexed for inflation using the same base year and the same method of rounding the amounts to the nearest \$10 as are other income tax provisions.

- 13 Wage income of Minnesota residents. Eliminates the exclusion from taxable income for wages that were earned when the taxpayer was a Minnesota resident and received when the taxpayer was not a Minnesota resident. Under present law, an individual is not subject to Minnesota income tax on wages for work performed while a Minnesota resident that are not received until the individual is a resident of another state. Examples include:

- individuals on contract whose contracts provide for them to continue to be paid for some time period after they complete the work required under the contract,
- individuals who receive nonqualified deferred compensation, and
- individuals who receive stock options while performing work as a Minnesota resident, but do not exercise the options until they have moved to another state.

This section would not apply to individuals participating in qualified plans (such as a regular defined benefit pension, 401(k), 403(b), IRAs, and 457 plans) while Minnesota residents and making withdrawals once they are nonresidents, since federal law prohibits state taxation of withdrawals from these plans by nonresidents.

Effective beginning in tax year 2007.

- 14 Withholding. Requires construction contractors to withhold 2 percent of payments to individuals (other than employees) who perform contract work for them as Minnesota withholding tax, if total payments to the individual during the year exceed \$600. This requirement applies (based on North American Industry Classification System codes) to the following types of businesses engaged in the:

- Construction of buildings
- Heavy and civil engineering construction
- Specialty trade contractors

The requirement applies to payments that are subject federal information reporting (IRS Form 1099). In applying the withholding tax, the individual is treated as an employee. Recipients must furnish the contractor with the names, addresses, and social security numbers. (Federal law imposes a similar requirement to permit 1099 information reporting.) Withholding would not apply to payments made to entities (corporations, partnerships, LLCs, and so forth).

Requires an annual report on the number and amount of withholding payments received under this section, and on the types of contractors making payments, grouped by specialty skills categories under the North American Industry Classification System codes.

Effective for payments made after July 31, 2007.

- 15 Update of references to Internal Revenue Code in the property tax refund chapter. Adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Laws 2007, chapter 1 (H.F. 8), adopted these same changes but for tax year 2006 only.

## Article 6: Sales and Use Tax

### Overview

Allows the State Agricultural Society (State Fair) to retain the sales tax collected on state fair admissions to maintain building and facilities on the fairgrounds.

Provides a new sales tax exemption for commuter rail rolling stock. Expands the existing sales tax exemptions for emergency public safety radio equipment and fire firefighting equipment. Expands the existing sales tax exemptions for farm equipment and inputs.

Makes statutory changes to clarify the continued exemption of kidney dialysis equipment under SSTA changes. Clarifies situsing provisions for sales of modular and manufactured homes.

Provides partial or total sales tax exemptions for construction materials used in, and equipment incorporated into, a number of water and wastewater treatment facilities for individual cities. These cities were required to build the facilities to meet environmental standards. The cities may apply for a refund of 50 percent of the tax actually paid on these facilities, however, the city of Harris may apply for a refund of 100 percent of the tax.

Provides a construction sales tax exemption for a nonprofit cancer research facility in Austin and expands the existing construction sales tax exemption for low-income housing.

Prohibits local governments from seeking authority for imposing a local sales tax after January 1, 2008, and prohibits them from spending money to promote seeking a local sales tax in the future. Allows the following taxes, three of which were already approved by voters at earlier elections:

1. Duluth (food and beverage tax increase);
2. Bemidji (expansion of allowed use of existing tax);
3. Crookston (new local tax for flood projects, subject to voter approval); and
4. North Mankato (new tax already approved by voters).

Requires the Department of Revenue to study the current sales and use tax system and make recommendations for moving the tax toward a final consumption tax.

- 1 Capital improvements. Requires that the State Agricultural Society match the retained sales tax revenues with revenues collected from exhibitors, vendors, and renters and use the combined revenue to make capital improvements to the state-owned buildings and facilities on the State Fairgrounds.
- 2 Sales and use tax (collections). Allows the State Agricultural Society to retain the sales tax collected on admissions to and events held at the Minnesota State Fair, provided that the revenue is matched and used to maintain the fairground facilities. Effective for sales made

after June 30, 2007.

- 3 Farm machinery. Expands this exemption to include grain drying systems and grain bins, as well as grain dryers. Effective for sales after June 30, 2007.
- 4 Manufactured and modular housing. Provides that sales of manufactured homes and modular housing sales shall be sourced to the site where the housing is first installed or erected for purposes of calculating sales taxes. Usually the manufacturer or dealer delivers this type of housing directly to the site and in those cases the sale is currently sourced to the site. This covers situations when a purchaser or contractor picks up the housing at the dealer's location and transports it to the site. Effective for purchases made after June 30, 2007.
- 5 Drugs; medical devices. States that the sale of kidney dialysis equipment is exempt from the sales tax. This codifies current practice and is required because of changes in the definition of durable medical equipment in the Streamlined Sales Tax Agreement (SSTA) that were adopted August 29, 2006. Effective the day after final enactment.
- 6 Agricultural feed processing facility; capital equipment. Provides a refund of sales tax paid on capital equipment purchased by a contractor for the construction of an agricultural feed processing facility. The exemption only applies to normal capital equipment incorporated into a facility in the city of Freeport that was constructed in part to replace a facility destroyed by fire. Famo Feeds is the only business that qualifies. The business must apply for the refund and the refund is limited to \$70,000. Effective for purchases made after June 30, 2002 and before December 31, 2003.
- 7 Materials consumed in agricultural production. Modifies the language regarding the exemption of fuels used in agricultural production to include all fuels used for heating, cooling, and lighting of facilities for housing agricultural animals. This reflects the department's most recent interpretation of this exemption. Effective the day after final enactment.
- 8 Repair and replacement parts (farm equipment). Expands this exemption to include tires for farm machinery. Effective for sales after June 30, 2007.
- 9 Sales of certain goods and services to government. Exempts railroad cars and engines, and related equipment used in providing a commuter rail service from the sales tax. Currently North Star commuter rail would be the only system that qualifies for this exemption. Effective for sales after December 31, 2006.
- 10 Regionwide public safety radio communication system; products and services. Extends the current sales tax exemption for products and services for the construction, operation, maintenance and enhancement of the backbone of the regionwide public safety radio communication system to the portion of the backbone located in Itasca County. Currently this exemption is available in the ten counties in the metropolitan area (Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, and Washington), the southeast district of the State Patrol and Benton, Sherburne, Stearns, and Wright counties in the central district of the State Patrol. Effective for purchases made after June 30, 2007.
- 11 Sales to fire departments. Provides a general sales tax exemption for purchases of tangible personal property by fire departments for items used directly in providing emergency response and emergency response training. Emergency response includes rescue and medical emergencies as well as fire fighting. This is in addition to exemptions that already exist in law for specific firefighting and emergency response items. Items currently subject to tax that would now be exempt include:

- replacement accessories for municipal fire departments;
- aircraft, snowmobiles, watercraft, and off-road vehicles;
- water purchased for firefighting by municipal fire departments.

Items that would remain taxable:

- water used for washing trucks, etc.
- construction materials, furniture and equipment, such as washing machines and kitchen appliances, used in constructing and furnishing a fire house but not directly used in emergency response.

Effective for sales after June 30, 2007.

- 12 Construction materials for qualified low income housing projects. Expands the existing sales tax exemption for low-income housing construction to include limited partnerships where the sole or managing general partner is a nonprofit corporation under Minnesota law that is a 501(c)(3) or 501(c)(4) corporation. Currently it applies to projects owned by a number of different entities but it only applies to projects owned by a limited partnership if the sole general partner is either (1) a public housing agency or housing and redevelopment authority of a political subdivision, or (2) an entity in a political subdivision exercising housing and redevelopment authority. Effective for sales made after June 30, 2007.
- 13 Brainerd and Baxter wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a joint wastewater treatment facility for the cities of Brainerd and Baxter. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after June 30, 2007, and before July 1, 2010.
- 14 Baxter water treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a water treatment facility for the city of Baxter. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after May 1, 2006, and before July 1, 2009.
- 15 Buffalo wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of Buffalo. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after March 1, 2007, and before December 31, 2008.
- 16 Burnsville surface water treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a surface water treatment facility for the city of Burnsville. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after March 15, 2007, and before January 1, 2010.
- 17 Emily wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of Emily. Applies to contractor as well as city purchases. The tax is

required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after January 1, 2005, and before January 1, 2007.

18 Goodview water treatment facilities. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated in to up to two water treatment facility for the city of Goodview. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the refund. Effective for purchases after June 30, 2007, and before January 1, 2009.

19 Harris wastewater treatment facility. Provides a full sales tax exemption for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of Harris. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the refund. Effective for purchases after May 31, 2006, and before June 30, 2008.

20 Milaca water treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a water treatment facility for the city of Milaca. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases before February 15, 2007.

21 Minnetonka water treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a water treatment facility for the city of Minnetonka. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases before December 31, 2006.

22 New Prague wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of New Prague. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after June 30, 2007, and before December 31, 2009.

23 New York Mills wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of New York Mills. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases before January 1, 2008.

24 Pelican Rapids wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of Pelican Rapids. The tax is required to be paid on the purchase and the city must apply for the partial refund. Applies to contractor as well as city purchases. Effective for purchases made the day after final enactment and before December 31, 2008.

25 Princeton wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of Princeton. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases made the day after final enactment and before January 1, 2012.

26 Willmar wastewater treatment facility. Provides a partial sales tax exemption of 50 percent for construction materials used in and equipment incorporated into a wastewater treatment facility for the city of Willmar. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the partial refund. Effective for purchases after June 30, 2007, and before July 1, 2012.

27           Bioscience research facilities. Provides a sales tax exemption for construction of a bioscience research facility if:

- the facilities are utilized by a research institute to conduct cancer research under a collaboration agreement with the Mayo Clinic;
- the institute is an independent research unit of the University of Minnesota; and
- the facilities are owned by a public foundation.

The tax is imposed at the time of sale and then refunded under section 297A.75. The Hormel Institute in Austin is the project that meets this definition. Effective for sales and purchases made after June 30, 2006, and before January 1, 2009.

28           Biobusiness center. Provides a sales tax exemption for the materials and supplies, and equipment incorporated into the initial construction of a biobusiness center in the city of Rochester. The exemption applies to purchases by contractors and builders as well as by the owner of the facility. This is an upfront exemption and is effective for sales after June 30, 2007.

29           Tax imposed and collected. Adds the building materials, supplies, and equipment of bioscience research facilities in section 0 to the list of projects for which the sales tax is first imposed and refunds are authorized under section 297A.75. Also strikes a clause listed in the statute for a project that has been completed. Effective the day after final enactment  
30           Tax collected; other. Provides that the city must apply for the sales tax refund on purchases partially or totally exempted from sales tax under sections 0 through 0 under section 297A.75 provisions. Effective the day after final enactment.

31           Refund; eligible persons. States that the city must apply for any refunds under sections 0 to 0, and the owner of the Hormel Institute must apply for the refund under section 0. Effective the day after final enactment.

32           Application. Requires the contractor to furnish the city with any information needed to apply for a sales tax refund under section 297A.75.

33           Authorization; scope (local sales taxes). States that a political subdivision may only impose a general sales tax if permitted by a special law enacted prior to January 1, 2008. Prohibits a political subdivision from seeking authority for a local sales tax after January 1, 2008, or from spending any of its own revenues to advertise, promote, or hold an election for a referendum to support imposing a local sales tax.

34           Exemptions (motor vehicles). Allows a charitable organization that holds a Minnesota vehicle dealer license to give a motor vehicle to an individual without the transfer being subject to the motor vehicle sales tax provided that no monetary or other consideration is expected. The Greater Twin Cities United Way is currently the only organization that would qualify. Effective for sales and purchases after June 30, 2007.

35           Duluth; food and beverage tax. Allows the city of Duluth to increase its food and beverage tax from one and one-half percent to two and one-quarter percent. The increase does not require voter approval. The extra three quarters of one percent tax must be used to help pay off the \$38 million in debt issued for building a new ice arena and related improvements to the Duluth Entertainment and Convention Center. This portion of the tax will expire when sufficient revenues are raised from this and other revenue sources to pay these bonds.

Revenues from the current tax are being used to repay \$8 million of bonds for capital

improvements to the Duluth Entertainment and Convention Center and \$5 million for the Great Lakes Aquarium. Current law requires that this portion of the tax will be reduced from one and one-half to one percent when these debts are repaid.

36 City of Bemidji. Allows the city of Bemidji to expand the projects that it may fund from its existing local sales tax revenues to include a regional event center, based on voter approval received at the November 2006 general election. The revenues currently are earmarked for parks and trail within the city. The bill would allow the city to pay the city's share of constructing a regional events center, not to exceed \$50 million plus associated bond costs. It also allows the city to issue up to \$50 million in bonds for the project, based on the 2006 referendum. The tax would now expire at the earlier of (1) when bonds for both projects are paid off, or (2) when revenues sufficient to pay the \$9.8 million of bonds for the parks and trails have been raised, plus 30 years.

37 City of Crookston; taxes authorized. Allows the city of Crookston to impose a one-half cent local sales and use tax to fund the listed projects.

Subd. 1. Sales and use tax. Authorizes the city to impose a one-half cent local sales tax , subject to voter approval at either a general or special election by December 31, 2008. States that except for the special election, all other provisions of the statutes regarding local sales taxes will apply.

Subd. 2. Use of revenues. Allows the city to raise \$10 million plus associated bond costs from the tax in subdivision 1 to pay for reconstruction of public facilities that need to be relocated in conjunction with the city's flood control plan.

Subd. 3. Bonding authority. Allows the city to issue up to \$10 million in bonds for the project listed in subdivision 3, based on the election approving the tax.

Subd. 4. Termination of taxes. Requires the tax imposed under subdivision 1 to terminate when revenues first meet or exceed an amount equal to \$10 million plus any additional costs, including interest, related to the bond issuance. Allows the city to terminate the tax earlier if it so desires.

38 City of North Mankato; taxes authorized. Allows the city of North Mankato to impose a one-half cent local sales and use tax to fund the listed projects.

Subd. 1. Sales and use tax. Authorizes the city to impose a one-half cent local sales tax, as already approved by voters at the 2006 general election. The statutes regarding local sales taxes will apply to the imposition, collection, and administration of the tax.

Subd. 2. Use of revenues. Allows the revenues collected from the taxes in subdivision 1, up to \$6 million plus associated bond costs, to be used for:

- the local share of the Trunk Highway 14/County State Aid Road Highway 41 interchange project;
- development of regional parks and hiking trails;
- expansion of the North Mankato Taylor library;
- riverfront development; and
- lake improvement projects.

Subd. 3. Bonding authority. Allows the city to issue up to \$6 million in bonds for the

projects listed in subdivision 2, based on the election approving the tax.

Subd. 4. Termination of taxes. Requires the tax imposed under subdivision 1 to expire when revenues raised first equals or exceeds \$6 million, plus associated bond costs.

39

Study of sales and use tax. Provides for the commissioner of revenue to study changes needed in the current sales tax system to move it to a true tax on all final consumer consumption with no taxation of intermediate business inputs. The study shall include:

- A listing of the changes needed along with the revenue impact of each change and any administrative and legal issues associated with each change;
- Any change in tax rate needed to keep the total changes revenue neutral;
- The impact of the changes in the tax incidence, along with possible rebate or refund mechanisms to reduce regressivity; and
- The impact of the changes on the business location and investment decisions.

The study must also make recommendations for changes to move the state sales tax system toward this "pure" system while minimizing administration and collection issues while keeping the changes revenue neutral. Effective the day after final enactment.

## Article 7: Economic Development

### Overview

This article provides for release of tax and unemployment insurance data to the State Auditor to conduct JOBZ audits and requires taxpayers benefiting from JOBZ to annually report on the amount of the tax benefits received.

It establishes a FARMZ program as part of JOBZ. This authority allows the commissioner of the department of employment and economic development (DEED) to transfer existing JOBZ parcels to qualifying farm sites, providing JOBZ benefits for on-farm agricultural processing facilities.

The article establishes an annual \$1 million bioscience business grant program, administered by DEED. It provides a \$1.7 million appropriation for the "snowbate" program for film and television productions. This appropriation is contingent upon the forecast of additional surplus in November 2008.

It allocates \$1.5 million for border city enterprise and development zones along the North Dakota border, and authorizes the City of Taylors Falls to exercise border city development powers and allocates \$100,000 for state tax reductions in the Taylors Falls zones.

It includes the annual TIF technical bill and allows TIF authorities to delay receipt the first year of increment by up to four years. It also includes special law TIF provisions for:

- The Thomson-West development in Eagan
- Expansion of Minneapolis' housing replacement project by 100 parcels
- Modification of Brooklyn Center's 1994 special law
- The City of Dayton to finance the Brockton interchange on I-94
- The City of Fridley to the finance a transit station for the Northstar commuter rail line

- 1 Unemployment insurance data; JOBZ audits. Authorizes release of unemployment insurance data to the State Auditor to conduct audits of the JOBZ program.
- 2 Tax data; JOBZ audits. Requires the commissioner of revenue to disclose tax return data to the State Auditor for purposes of conducting JOBZ audits.
- 3 JOBZ property tax exemption. Extends the requirement that JOBZ properties pay school operating referenda levies to all of these levies. Present law subjects JOBZ properties to these levies, if the voters approved the levy before the designation of the zone.

- 4 Report on JOBZ benefits. Requires each qualified business under the JOBZ program to report to the commissioner of revenue by October 15<sup>th</sup> of each year the tax benefits that it received under JOBZ for the previous year. If the report is not filed on time, the commissioner notifies the business that it must file within 60 days. The commissioner can extend this period for good cause. Failure to submit the report causes the business to lose its right to JOBZ tax benefits and triggers the requirement to repay the tax benefits for the previous two years.
- 5 Border city allocations. Allocates \$1.5 million for border city enterprise zone and border city development zone tax reductions. This allocation is divided equally between the two programs (\$750,000 to each), but the city can reallocate the amounts between the two programs. The allocation is divided among the qualifying border cities on a per capita basis. The five cities that qualify are Moorhead, Dilworth, East Grand Forks, Breckenridge, and Ortonville.
- 6 Redevelopment districts. Allows satisfying the "coverage" part of the blight test using improvements that were demolished or removed before certification of the district. Present law allows a development authority to finance or agree to the removal of substandard buildings before certification of the district and still use the building to meet the blight test, if certain conditions are met (3-year time period, city financing or development agreement, and resolution approval). This expands that special rule to allow the authority to satisfy the coverage portion of the blight test.
- 7 Renewal and renovation district blight test. Adds a cross reference to allow authorities to use the special rule described in section 0 to qualify under the blight test for renewal and renovation districts.
- 8 TIF; small city definition. Modifies the definition of a "small city" to allow computing the distance limitation using any boundaries of the larger city that were in effect during the last ten years before requesting certification of the TIF district. This will allow small cities to retain their status for ten years after an annexation by a larger city that reduces the distance between the cities to less than 10 miles.

Present law requires a city to be located 10 miles or more from the nearest border of a city with a population of 10,000 or more to qualify as a small city. Qualifying as a "small city" under the TIF Act enables the city to use economic development TIF districts for small commercial developments - i.e., retail, office space, and similar developments. These developments cannot exceed 15,000 square feet. However, the city can do multiple districts, if each development is separately owned. Economic development districts can be used at any location, i.e., they are not restricted to difficult to develop parcels containing "blight." Cities that do not qualify as "small cities" may only use economic development TIF districts for more "footloose" type industries - e.g., manufacturing, research and development, and warehousing.

- 9 TIF plan; election to delay increment receipt. Authorizes the development authority to provide in the TIF plan (except for economic development districts) when the first increment for the district will be received. This cannot be delayed beyond four years after approval of the plan. Because there is typically a 2-year delay between approval of the TIF plan and collection of the first increment, as a practical matter, this will usually allow a delay of up to two years. (In some instances, it may be one year or none, depending upon the timing of the request for certification of the district and the construction or increases in property value.)
- 10 Housing districts; but-for finding. Exempts all housing districts from the but-for test

provision that requires a finding that the project will increase the district's market value. Under present law, this exemption applies only to "qualified housing districts." Section 0 repeals the definition of qualified housing districts.

11 Delay receipt; municipal approval. Requires the municipality for the district (the city in which the district is located in most cases) to approve an election to delay receipt of the increment.

12 Excess increment. Adds a cross reference that allows transfers of increments by pre-1979 districts to offset deficits in other districts to be subtracted before determining if the pre-1979 district has excess increments. (This confirms the intent underlying the deficit and excess increment provisions.)

The section also authorizes the State Auditor to exempt a city from calculating and reporting the detailed excess increment calculations for a district, if the district's budgeted uses of increment exceed the collected increments by 20 percent or more.

13 Parking facilities. Clarifies that publicly owned parking facilities, including those ancillary to public parks and social and recreational facilities, may be financed with increment revenues. Present law could be construed to allow this only for private parking facilities. The change confirms the original intent and is retroactive to the original effective date of the language.

14 Housing districts. Exempts all housing districts from the prohibition on including green acres and similar parcels in a district. Under present law, this exemption applies only to "qualified housing districts." Section 0 repeals the definition of qualified housing districts

15 Housing districts; non-housing uses. Clarifies the restrictions on spending of increments from housing districts for non-housing related improvements. Present law limits the square footage for non-housing uses to 20 percent of the total square footage of the buildings receiving assistance. This section allows assistance to an addition to an existing building to be treated separately for purposes of this square footage test, if the addition is constructed more than 3 years after the original building. In addition, if the original building meets the square footage test, then the addition must not have been contemplated in the original TIF plan.

16 TIF in bioscience zones. Modifies the special pooling rules for tax increment financing districts located in bioscience zones. Present law permits expenditures of these districts' increments on public infrastructure that is outside of the district, but within the zone. This bill expands the exemption to include land acquisition and other redevelopment costs, as defined in the blight correction test. This would include pollution cleanup and remediation. These expenditures are treated as if they were made within the district.

17 Certification of original tax capacity. Requires county auditors to certify original tax capacity within 30 days of receiving all of the information necessary to certify the appropriate parcels. This will eliminate the practice of one county to wait with certification until the tax capacity of the district actually increases in value. Apparently all of the other counties immediately certify the district and do not wait for a value increase to occur. Since some time limits under the TIF Act run from the date of certification, this results in uneven treatment across counties. This section also makes a conforming change in the provision relating to certifying original tax capacity to implement the provisions of sections 0 and 0.

18 Interfund loans. Inserts two words in the statute that were inadvertently dropped when this subdivision was last amended to specify the appropriate interest rate.

19 Special taxing districts. Exempts all housing districts from the requirement that available increments be transferred before using the special taxing authority to eliminate deficits. (No

city has used this special taxing authority.)

20 Qualified farm; FARMZ program. Defines a qualified farm as a person engaged in farming who invests in an agricultural processing facility outside the seven-county metropolitan area that meets investment goals (equal to 10 percent of previous year's gross revenue) and performance goals (increases on-farm employment, excluding family members, by 25 percent). The person operating the qualified farm must enter into a written agreement with DEED. This agreement must agree to recapture of tax benefits, if the project does not meet the pledged performance goals.

21 JOBZ; notification and approval of relocations. Requires a business that intended to relocate 25 or more full-time equivalent jobs from a location in Minnesota into a JOBZ to notify the commissioner of the Department of Employment and Economic Development (DEED), the local government (i.e., the city and county where the JOBZ is located), and the city and county where the current location of the business is. The city or county in which the business is located can, then, veto the relocation by passing a resolution within 60 days after receiving the notice. The resolution must identify one or more sites for the business to locate in the unit. These sites must:

- Be large enough
- Have appropriate transportation access
- Be served by public infrastructure (or the unit agrees to provide it)
- Be owned or controlled by the business, the local unit, or be for sale

The veto may be rescinded by passage of a resolution. This procedure roughly parallels the provisions the border city development zone program. Minn. Stat. § 469.1733, subs. 2 and 3.

22 FARMZ, special rules. Provides that the JOBZ rules apply to designated FARMZ sites with the following exceptions:

- Only the portion of the qualified farm that is used for the agricultural processing facility qualifies for tax benefits. The income and corporate franchise tax exemptions are limited to no more than the percentage increase in income that occurred after the FARMZ designation occurred.
- Qualified farms (defined in section 0) are deemed to be qualified businesses for JOBZ purposes.
- The sales tax exemption applies only to purchases of items for use in the agricultural processing facility.
- Payroll attributable to family members does not qualify for the jobs credit.

23 Designation of FARMZ sites. Authorizes the commissioner of DEED to designate FARMZ sites that will receive JOBZ benefits by transferring existing, unused JOBZ parcels. Before transferring parcels, the commissioner must notify the local government in which the JOBZ parcels are located and consult with the commissioner of revenue. FARMZ sites are limited to the duration of the JOBZ.

24 State Auditor; JOBZ audit authority. Authorizes the State Auditor to request return

information from the commissioner of revenue and wage information from the commissioner of employment and economic development on JOBZ recipient taxpayers. Bioscience business grants. Provides bioscience business grants equal to 25 percent of private equity capital raised by qualifying businesses, up to a maximum grant of \$100,000 per business. Limits statewide grants to \$1 million per year.

Subd. 1. Definitions

Qualifying businesses are defined as meeting the following requirements:

- Its headquarters are in Minnesota.
- It has fewer than 25 employees and at least 51 percent of them are located in Minnesota.
- The business conducts or provides biotechnology or medical device research, production, or services, and is not engaged in real estate development, insurance, banking, retail or wholesale trade, professional services, construction, transportation, health care or similar.
- It has not been in operation for more than 10 consecutive years.
- It does not have more than \$1 million in annual gross sales.
- It has not received more than \$1 million in investments that qualify for the credit or more than \$2 million in private equity investment (regardless of whether they qualify for the credit).
- It cannot be an affiliate or subsidiary of business with more than 100 employees or gross annual sales of \$1 million or more.

Private equity investments is defined as made by investors who do not control 20 percent or more of the qualifying business.

Subd. 2. Bioscience grants authorized. Authorizes the commissioner of employment and economic development to make grants to qualifying businesses equal to 25 percent of private equity investment commitments, up to a maximum of \$100,000. Requires private equity investments of at least \$100,000 for a business to qualify for a grant.

Subd. 3. Application; preliminary certification. Requires qualifying businesses to apply for a grant and provide information on the technology under development and on investments or commitments of at least \$100,000. Applications are reviewed by a grant evaluation team established by the commissioner and made up of representatives of various groups. Provides that application information other than the name and address and amount of the grant requested is nonpublic. The evaluation team makes recommendations to the commissioner, who provides preliminary certification to recommended businesses. The certification reserves a grant.

Subd. 4. Award of grant. Gives businesses that receive preliminary certification 30 days to demonstrate receipt of the private equity investments on which the grant is based, at which time the grant is awarded. Preliminary certifications for which businesses fail to demonstrate receipt of investments cancel back into the pool for certification to other businesses.

Subd. 5. Repayment obligation. Requires businesses that move out of Minnesota or have fewer than 51 percent of its employees in Minnesota within 5 years of receiving a grant to repay the grant. Absolves businesses that cease operations from the repayment obligation.

Subd. 6. Report. Requires the commissioner to report annually to the legislature on the number and amount of grants awarded, the activities of grant recipients, and the geographic distribution of businesses receiving grants.

26 Brooklyn Center; TIF. Modifies a special law providing TIF authority for the city of Brooklyn Center. Under this special law, 15 percent of the increments from the district are deposited in a housing development account. This section changes the name of the account to include "remediation." This is consistent with section 0, which expands the permitted uses of the account to include remediation costs.

27 Brooklyn Center; permitted uses of increment. Allows the account to be used for environmental remediation and housing construction and clarifies that the housing purposes are only required to satisfy the requirement for standard housing districts, not qualified housing districts. (Other provisions of this article repeal the qualified housing district provisions.)

28 Brooklyn Center; account name. Changes a reference in the law to the account to be consistent with the name change in section 0.

29 Minneapolis; housing replacement projects; name change. Modifies the definition of the development authority for Minneapolis to include its successors and assigns. This reflects the reorganization of Minneapolis' economic development function from the Minneapolis Community Development Agency to Community Planning and Economic Development.

30 Housing replacement district; Minneapolis' parcel limit. Increases the parcel limit for Minneapolis' housing replacement TIF district from 200 to 300.

31 Eagan; TIF authority. Authorizes the city of Eagan to establish economic development TIF districts for the Thomson-West expansion in a designated area of the city.

Special rules. Sets out the special rules that apply to these TIF districts:

- Increments may be used for facilities other than manufacturing, warehousing, and research and development, as required by general law.
- Increments spent for parking, wetland mitigation, sewer, water, and street improvements within the defined area are not subject to the general law pooling restrictions (i.e., the limits on the percentage of increment that may be spent outside of the district from which they were collected).

Authority to establish districts under this section expires on December 31, 2008.

32 TIF; city of Dayton. Authorizes the city of Dayton to establish an economic development TIF district. If the town enters a joint powers agreement with the city, the district can

include area in the town of Hassan. The section defines the areas of the city and town that may be included in the district.

The TIF district will otherwise be subject to the general law rules under the TIF Act, with the following exceptions:

- Increments from the district can only be used to finance the Brockton I-94 interchange project, including land acquisition, public infrastructure, and administrative cost.
- The city is not required to make the findings that the district is necessary to create new jobs or preserve the tax base of the state. (The primary purpose of the district is to finance construction of public infrastructure.)
- Use of increments is not limited to assisting manufacturing, warehousing, or research and development projects.
- The limitations on the percentage of the district that may be owned by the city do not apply.
- Parcels in the green acres and agricultural preserves programs can be included in the district.
- Administrative expenses may not exceed 10 percent of the improvement costs.
- Increments are limited to 80 percent of the amount permitted under general law.

Effective upon local approval by the city and town board.

33 City of Fridley; TIF district. Authorizes the city of Fridley or its housing and redevelopment authority to establish a redevelopment district in a defined area of the city. This "Northstar Transit Station District" would be subject to a series of exceptions to the general law:

- Although the district would be treated as a redevelopment district with a 25-year duration limit, it would not be required to satisfy the "blight test" and would not be restricted to using its revenues to "correct blight" but could also be used to develop the transit station.
- The 5-year rule does not apply to the district.

In addition, this section grants three other Fridley TIF districts an exemption from the general law pooling rules to allow use of their increments to finance the transit station.

34 **Taylor Falls; Border city development zone.** Allows the City of Taylor Falls to designate all or any part of the city as a border city development zone. The bill allocates \$100,000 to the city to provide state tax benefits under the zone. This dollar limit does not

apply if the commissioner of revenue waives the limit under the general law rules.

The general law rules for border city development zones apply to these zones. This law allows businesses locating or expanding in designated zones to qualify for property tax exemptions, corporate franchise tax credits, and sales tax exemptions. Cities with these powers also can extend some of these benefits to businesses located within their cities, but outside a development zone. To receive these tax reductions, a business must apply to the city in which it is located. Under present law, the cities of Breckenridge, Dilworth, East Grand Forks, Luverne, Moorhead, and Ortonville have these border city development zone powers. (Luverne received one-time funding in 2001; the other cities have received biennial funding since designation of the zones in 1998.)

35 Appropriation; bioscience grants. Appropriates \$1 million in fiscal year 2008 and \$1 million in fiscal year 2009 for bioscience business grants under this section 0. \$1 million per year becomes part of the Department of Employment and Economic Development's base budget for fiscal years 2010-2011.

36 Appropriation; Minnesota Film and TV Board. Makes a contingent appropriation of \$1.7 million to the commissioner of employment and economic development for a grant to the Minnesota Film and TV board to provide rebates of up to 15 percent of film production costs incurred in Minnesota under the existing "Snowbate" program. The appropriation is contingent on additional revenue being available in the November 2008 forecast, and is first priority for use of those revenues.

37 Repealer. Repeals the definition of qualified housing districts. The bill eliminates this category of districts and allows all housing districts to qualify for the treatment that applied to these districts. Qualified housing districts were enacted as an exemption to the state aid offset provision that was repealed in 2001. However, three other provisions were limited to qualified housing districts. There is little difference between housing districts and qualified housing districts for rental projects; the income limits for qualified housing districts for homeowner projects are slightly lower than for housing districts generally.

## Article 8: Minerals

### Overview

This article:

- Authorizes the Iron Range and Rehabilitation Board and the economic protection trust fund to purchase forest-lands in the taconite assistance area.
- Provides for a distribution of three cents per ton to school districts in the immediate vicinity of each taconite facility for building maintenance and repairs.
- Provides for a distribution of two cents per ton for higher education programs, scholarships, and grants to postsecondary students attending a higher education institution located in the taconite assistance area.
- Provides for a distribution from the taconite production tax to the city of Virginia for connecting and replacing certain sewer and water lines.
- Provides for an annual payment from taconite production tax proceeds to retire bonds of the Mesabi East school district for ten years.

- 1 Forest trust. Authorizes the Iron Range and Rehabilitation Board to purchase forest-lands in the taconite assistance area. These forest-lands must be held in trust for the benefit of the citizens of the area as the Iron Range Miners' Memorial Forest. The board may use the lands for recreation and economic uses, and must deposit the proceeds from the sale of timber, or removal of gravel or other minerals, from these lands into an Iron Range Miner' Memorial Forest account established by the board. The board may transfer money in the account into the Douglas J. Johnson economic protection trust fund. Effective day following final enactment.
- 2 Iron Range Higher Education Committee; membership. Changes the membership of the Iron Range Higher Education Committee. Provides that the two member of the IRRRB that are on the committee, are appointed by the chair, and not by the commissioner. Also add the President of the Northeast Higher Education District to the committee.
- 3 School district allocation; additional three cents. Provides that three cents per taxable ton from each production facility will be distributed to school districts in the immediate vicinity of the facility, to be deposited in a fund for building maintenance and repair. The bill specifies which school districts are to receive proceeds from the revenues of each facility. Provides that the revenues may not be used to reduce state aids or to reduce permissible levies.
- 4 Iron Range higher education account. Allocates two cents per taxable ton to an Iron Range

higher education account created by the section, to be used for higher education programs, scholarships, and grants to postsecondary students attending a higher education institution located in the taconite assistance area. The Iron Range higher education committee must approve all expenditures from the account. The account must be used for the educational expenses of undergraduates and postgraduates who attend higher educational institutions located in the taconite assistance area. Effective for production in 2007, distributions in 2008 and thereafter.

5 Douglas J. Johnson economic protection trust fund. Allows money in the Douglas J. Johnson economic protection fund to purchase forest land in the taconite assistance area to be held as a public trust for the benefit of the area for recreational uses and for economic purposes, including timber sales and gravel and other mineral removal. Effective the day following final enactment.

6 Grant and loan fund. Provides that the remainder of the 2008 distribution (the first \$2,000,000 has already been statutorily set-aside for certain road and bridge work in St. Louis County), must be paid to St. Louis County for a grant to the City of Virginia for connecting and replacing certain sewer and water lines. Effective the day following final enactment.

7 Iron Range Resources and Rehabilitation Board; appropriation; retire bonds. Appropriates annually beginning with taxes payable in 2008 through taxes payable in 2017, from the taconite production tax revenues to the taconite environmental protection fund and to the Douglas J. Johnson fund, in equal shares, an amount of \$500,000 per year.

Provides that all revenue received under this section shall be used only to retire Mesabi East School District No. 2711 bonds of \$9,000,000 issued in September, 2006 and of \$6,250,000 issued in March, 2007. Payments shall be made to the school district March 1.

8 Iron Range Memorial Forest. Authorizes the IRRRB to expend money from the principal of the Douglas J. Johnson fund to purchase forest land, which must be held in trust for the benefit of the citizens of the taconite assistance area as the Iron Rang Miner' Memorial Forest. Effective the day following final enactment.

## Article 9: Special Taxes

### Overview

This article allows a \$500,000 additional exemption from the Minnesota estate tax for qualifying farm and small business property and taxes gifts, taxable under federal law and made within three years of the decedent's death, under the estate tax.

It converts the tobacco products excise tax and the health impact fee on moist snuff to a weight basis. The bill converts the present combined tax and fee of 70 percent of the wholesale price to \$1.82 per ounce tax. These dollar amounts are indexed for inflation beginning for calendar year 2009.

A temporary (FY2008-2010) 7 percent reduction in the lawful gambling taxes is provided.

Provides a 10 cent per ticket surcharge on professional men's hockey to support the Hockey Hall of Fame Museum.

The article also allows mortgage and deed taxes to be imposed by Dakota and Anoka County, and repeals the sunset on these taxes in Hennepin and Ramsey counties.

- 1 Minnesota adjusted taxable estate; gifts in contemplation of death. Modifies the definition of Minnesota adjusted taxable estate in three ways:
  - Expenses deducted in computing income tax are disallowed. This is a technical change, recodifying the provision section 0eliminates.
  - Gifts made within three years of the decedent's date of death must be added in computing the Minnesota adjusted taxable estate. This will subject these gifts to Minnesota estate taxation. This addition only applies to gifts that are taxable under the federal gift tax and not already included in the federal estate - e.g., gifts that exceed the annual exemption amount (\$12,000 per recipient or \$24,000 for gifts by a married couple) or gifts of future interests. The amount added would be based on the value for federal gift tax purposes - i.e., the amount reported on federal return, subject to the audit adjustments by the Internal Revenue Service.
  - The value of qualified farm property and qualified small business property may be deducted in computing the taxable value of the estate. This deduction cannot exceed \$500,000.
- 2 Conforming change. Eliminates the addition for amounts deducted in computing income tax. Section 0recodified this disallowance in the definition of Minnesota adjusted taxable estate.

3 Definitions. Defines terms for purposes of the small business and farm exemptions:

- Family member (defined by reference to federal law) means a spouse, ancestor, lineal descendent, or a spouse of a lineal descendent of the decedent.
- Qualified heir is a family member who acquired the property (farm or small business property) and agreed to continue using the property as a small business or farm or to pay recapture tax under section 0.
- Qualified property refers to farm property that meets the requirements of section 0 and small business property that meets the requirements of section 0.

4 Qualified farm property. Requires qualified farm property to satisfy the following requirements:

- Its value was included in the Minnesota gross estate.
- The property consists of a farm, as defined by Minnesota law, and was classified as the decedent's agricultural homestead for property tax purposes.
- Decedent continuously owned the property for the 3-year period before the date of death.
- A family member continuously uses the property for three years after the date of death.
- The estate and the qualified heir agree to pay recapture tax if a family member fails to satisfy the requirement to use the property for the 3-year period.

5 Qualified small business property. Requires small business property to satisfy the following requirements:

- Its value was included in the Minnesota gross estate.
- It consists of trade or business property (or shares of stock or other ownership interests that are not public traded) and the decedent or spouse materially participated in the operation of the business.
- It had gross annual sales for the most recent taxable year of \$10 million or less.
- Any cash or equivalents are deducted from the value of the business.
- Decedent owned the business for three years before the date of death.
- A family member continuously uses the property for three years after the date of death.
- The estate and the qualified heir agree to pay recapture tax if a family member

fails to satisfy the requirement to use the property for the 3-year period.

- 6 Recapture tax. Imposes a recapture tax, if the qualified heir disposes of the qualified farm or small business property (except by transferring it to a family member) or if a family member fails to satisfy the 3-year use requirement. The tax equals 16 percent of the value of the exclusion and is due six months after the property is disposed of or the qualifying use stops.
- 7 Valuation of assets for estate tax. Allows the commissioner to challenge an estate's valuation of assets included in an estate rather than being bound by valuations accepted by the Internal Revenue Service. This provision will allow the commissioner to challenge valuations of estates with values above the Minnesota's exemption amount, but below the federal exemption. Effective retroactively for estates of decedents dying after December 31, 2005.
- 8 Hockey heritage surcharge. Imposes a surcharge of 10 cents per ticket on all admissions to professional men's hockey games. The hosting team or association is required collect and remit the revenue from the surcharge annually to the commissioner of revenue by March 15 for the proceeding calendar year. The revenue is deposited in a hockey surcharge account and appropriated to the Iron Range Resource and Rehabilitation Board for payment to the city of Eveleth to support the Hockey Hall of Fame Museum.
- 9 All-terrain vehicle percent of gasoline tax. Increases the percent of gasoline tax attributed to purchase of fuel for use in all-terrain vehicles from 15-hundredths of one percent to 27-hundredths of one percent. Effective for gasoline fuel tax received after June 30, 2008.
- 10 Tax rates for fiscal years 2008 to 2010. Establishes lawful gambling tax rates that apply for the period from June 30, 2007 through July 1, 2010. These rates represent a 7 percent reduction from the regular tax rates. At the end of the period, the rates revert to their current level. The present and proposed rates are shown in the table.

Tax	Present rate	Temporary rate
General	8.5%	7.9%
Pulltab and tipboard	1.7%	1.6%
Combined receipts		
\$500,000 - \$700,000	1.7%	1.6%
\$700,000 - \$900,000	3.4%	3.2%
\$900,000 +	5.1%	4.7%

- 11 Moist snuff; definition. Defines "moist snuff" for purposes of the cigarette and tobacco products excise tax chapter. This definition includes "finely cut, ground, or powdered smokeless tobacco that is intended to be dipped in the oral cavity."
- 12 Tobacco products definition. Modifies the definition of tobacco products under the excise tax to explicitly refer to moist and dry snuff.
- 13 Tobacco products rate. Provides a separate tobacco products excise tax for moist snuff equal to \$.91 per ounce. The health impact fee doubles this rate, so that the combined tax and fee rate for moist snuff would be \$1.82 per ounce. The tax on fractions of an ounce would be computed proportionately, but rounded up to the nearest tenth of a percent.

A combined minimum tax and fee of \$2.18 per container of snuff would apply. This is the equivalent of a tax on a 1.2-ounce can of snuff. Smaller cans or other containers would pay this minimum amount.

All other tobacco products (chewing tobacco, dry snuff, cigars, and pipe tobacco) would continue to be taxed at 70 percent of the wholesale price.

14 Use tax. Makes a conforming change in the tobacco products use tax rate to be consistent with the changes in section 0.

15 Inflation adjustment. Annually adjusts the excise tax rate applied to moist snuff for inflation.

16 Forfeited cigarettes. Requires the commissioner of revenue to destroy unstamped cigarettes and tobacco products on which the excise tax has not been paid. The cigarettes or tobacco products may be used for enforcing criminal provisions of federal or state law.

Under present law, the commissioner can take any of the following three actions with regard to the contraband cigarettes or tobacco products:

- Deliver to DHS for use in state institutions
- Sell at a public auction
- Destroy the property

The section retains the commissioner's authority to sell other types of contraband (e.g., vending machines, vehicles, and so forth) recovered for nonpayment of excise tax.

17 Insurance premiums tax; exemption. Exempts state employee group life insurance premiums from the insurance premiums tax, if the premiums are paid to a company domiciled in a state that exempts these premiums from its premiums tax. This will allow a Minnesota domiciled company selling this insurance in a state with an exemption to avoid that state's retaliatory tax.

18 Dakota County deed and mortgage tax.

Subd. 1. Authority to impose; rate. (a) Grants the governing body of Dakota the authority to impose a mortgage registry and deed tax.

(b) Provides that the mortgage registry tax rate equals .0001 of the principal.

(c) Provides that the deed tax rate equals .0001 of the amount.

Subd. 2. General law provisions apply. Provides that the taxes under this section apply to the same base as the state mortgage registry and deed taxes under chapter 287, except that the rate is the rate specified in subdivision 1, "Dakota County" must be substituted for "the state," and the revenue must be deposited as provided for in subdivision 3.

Subd. 3. Deposit of revenues. Requires all revenue from the tax to be used by the Dakota County Board of Commissioners and deposited in the county's environmental response fund under section 0.

19 Dakota County Environmental Response Fund.

Subd. 1. Creation. Creates an environmental response fund for the purposes specified in this section. Requires the taxes imposed by section 0 to be deposited in this fund and that the Dakota Board of County Commissioners administer the fund as either a

county board, a housing and redevelopment authority, or a regional rail authority.

Subd. 2. Uses of fund. Provides that the fund must be used for the following purposes:

- (1) acquiring through purchase or condemnation lands/property polluted or contaminated with hazardous substances;
- (2) paying the costs associated with indemnifying an entity taking title to lands/property from liability arising out of ownership, remediation, or use of the land/property,
- (3) paying the costs of remediating the acquired land/property;
- (4) paying the costs associated with remediating lands/property which are polluted or contaminated with hazardous substances; or
- (5) paying for costs associated with improving the property for economic development, recreation, housing, transportation, or rail traffic.

Subd. 3. Matching funds. Requires the county to seek matching funds from contamination cleanup funds administered by DEED, the Metropolitan Council, the federal government, private sector, and any other source.

Subd. 4. Bonds. Allows the county to pledge the proceeds from the taxes under section 1 to bonds issued under this chapter and chapters 398A, 462, 469, and 475.

Subd. 5. Land sales. Allows land/property acquired under this section to be resold at fair market value Requires the proceeds from the sale to be deposited in the environmental response fund.

20 Anoka County deed and mortgage tax.

Subd. 1. Authority to impose; rate. (a) Grants the governing body of Anoka the authority to impose a mortgage registry and deed tax.

(b) Provides that the mortgage registry tax rate equals .0001 of the principal.

(c) Provides that the deed tax rate equals .0001 of the amount.

Subd. 2. General law provisions apply. Provides that the taxes under this section apply to the same base as the state mortgage registry and deed taxes under chapter 287, except that the rate is the rate specified in subdivision 1, "Anoka County" must be substituted for "the state," and the revenue must be deposited as provided for in subdivision 3.

Subd. 3. Deposit of revenues. Requires all revenue from the tax are to be used by the Anoka County Board of Commissioners and deposited in the county's environmental response fund under section 0.

21 Anoka County Environmental Response Fund.

Subd. 1. Creation. Creates an environmental response fund for the purposes specified in this section. Requires the taxes imposed by section 0 to be deposited in this fund and that the Anoka Board of County Commissioners administer the fund as either a county board, a housing and redevelopment authority, or a regional rail authority.

Subd. 2. Uses of fund. Provides that the fund must be used for the following purposes:

- (1) acquiring through purchase or condemnation lands/property polluted or contaminated with hazardous substances;
- (2) paying the costs associated with indemnifying an entity taking title to lands/property from liability arising out of ownership, remediation, or use of the land/property,
- (3) paying the costs of remediating the acquired land/property;
- (4) paying the costs associated with remediating lands/property which are polluted or contaminated with hazardous substances; or
- (5) paying for costs associated with improving the property for economic development, recreation, housing, transportation, or rail traffic.

Subd. 3. Matching funds. Requires the county to seek matching funds from contamination cleanup funds administered by DEED, the Metropolitan Council, the federal government, private sector, and any other source.

Subd. 4. Bonds. Allows the county to pledge the proceeds from the taxes under section 1 to bonds issued under this section and chapters 398A, 462, 469, and 475.

Subd. 5. Land sales. Allows land/property acquired under this section to be resold at fair market value. Requires the proceeds from the sale to be deposited in the environmental response fund.

Subd. 6. DOT assistance. Requires the commissioner of transportation to collaborate with the county and any affected municipality by providing technical assistance and support in cleaning up a contaminated site related to a trunk highway or railroad improvement.

22

Repealer. Repeals the sunsets of the Ramsey County and Hennepin County authority to impose a mortgage registry tax (MRT) and deed tax for deposit in their environmental response fund. The MRT rate is .0001 (i.e., 0.01 percent) of the total debt secured on mortgages and the deed tax is also .0001 (i.e., 0.01 percent) of net consideration, which is the price paid for the real property. These taxes are in addition to the regular MRT and deed taxes imposed by the state and are collected at the same time and on the same basis as the state taxes.

## Article 10: Department Income and Franchise Taxes

### Overview

This article makes various changes recommended by the Department of Revenue.

The more significant changes:

- Requires employers to submit W-2 filings electronically (employers with more than 100 employees in 2007, 25 in 2008, and 10 in 2009 and following years.
- Requires certain mutual fund companies with Minnesota companies to file 1099 returns with the department
- Requires individuals to provide their date of birth on their income tax return
- Imposes penalties for failure to provide identification numbers of shareholders or partners, failure of tax preparers to provide their tax preparer identification number, and modifies the penalty for negligence in filing property tax refund returns
- Provides uniform language for the various income tax provisions subject to annual indexing for inflation

- 1 Uniform indexing language; revenue recapture threshold. Clarifies that the income threshold at which an individual is subject to revenue recapture is indexed for inflation using the same base year and the same method of rounding the threshold to the nearest \$10 as are other income tax provisions. Under current law this income threshold is indexed annually for inflation; this change simply provides that it will be indexed using 2000 as the base year, and will ensure that the indexed amount is rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.
- 2 Date of birth. Requires that individuals provide their date of birth on their individual income tax returns. Effective beginning with tax year 2007 returns.
- 3 Electronic filing of withholding tax returns. Requires employers who are required to withhold Minnesota individual income taxes for more than 100 of their employees to submit their Minnesota W-2 filings to the commissioner by electronic means. Effective for wages paid in tax year 2007. Decreases the 100 employee threshold to 25 for tax year 2008, and to 10 for tax year 2009 and following years.
- 4 1099 returns required of mutual funds paying federally tax-exempt interest dividends. Requires mutual funds that pay federally tax exempt dividends to Minnesota residents to file a copy of the 1099 return currently sent to the shareholders of the fund to the commissioner by March 15th of the year following the year the dividends were paid. Current law allows the commissioner to demand copies of 1099 returns after which the mutual fund has 60 days to provide the returns without penalty. Effective for tax years beginning after December 31, 2006.

- 5 1099 returns from mutual funds; obsolete reference. Deletes a reference to the time period in which a mutual fund paying federally tax-exempt interest dividends must file 1099 returns with the commissioner if the commissioner demands the returns; under section 0 these funds will be required to routinely file 1099s with the commissioner, making this reference unnecessary. Effective for tax years beginning after December 31, 2006.
- 6 Penalty; failure to provide identification number for partner or shareholder. Imposes a \$50 penalty for each time a partnership or S corporation provides an incorrect tax identification number of an owner the entity reports in their Minnesota return, if the partnership or S corporation was previously notified by the commissioner that the number is incorrect. Effective for returns filed after December 31, 2007.
- 7 Penalty; negligence in filing a property tax refund return. Changes the penalty for negligence in filing a property tax refund return from one based on 10 percent of the property tax refund allowed to a penalty of 10 percent of the claimed amount that is not allowed. Effective for property tax refund claims filed on or after July 1, 2007.
- 8 Cross-reference in the tax shelter disclosure penalty. Corrects a cross reference in the statute that provides a penalty for understating reportable transactions in the tax shelter disclosure statute. The current language references an abatement by the commissioner, but references a section of statute that does not relate to abatement of a disclosure penalty. The corrected reference is to two paragraphs that provide abatements applicable to tax shelter transactions. Effective the day following final enactment.
- 9 Penalty; tax preparers failing to include preparer number. Requires tax preparers who prepare Minnesota individual income tax returns to provide their federal preparer number on Minnesota individual income tax returns. Imposes a \$50 penalty for each instance of failure to provide the number on a return. Effective for returns prepared for tax years beginning after December 31, 2006.
- 10 Bovine testing credit. Provides that bovine testing credit is only allowed in taxable years in which the federal government requires tuberculosis testing of Minnesota cattle. Effective for tax years beginning after December 31, 2007.
- 11 Uniform indexing language; dependent care credit phaseout. Clarifies that the income threshold for the dependent care credit phaseout is indexed for inflation using the same base year and the same method of rounding the threshold to the nearest \$10 as are other income tax provisions. Under current law this income threshold is indexed annually for inflation; this change simply provides that it will be indexed using 2000 as the base year, and will ensure that the indexed amount is rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.
- 12 Uniform indexing language; working family credit earned income amounts and phaseout threshold. Clarifies that the maximum earned income amounts and the income thresholds for the working family credit phaseout are indexed for inflation using the same base year and the same method of rounding the amounts to the nearest \$10 as are other income tax provisions. Under current law the maximum amounts and income thresholds are indexed annually for inflation; this change simply provides that they will be indexed using 2000 as the base year, and will ensure that the indexed amounts and thresholds are rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.
- 13 Corporate franchise tax; cross-reference correction. Corrects a cross-reference to the definition of the deposits ratio used to apportion certain types of bank income. This definition previously appeared in section 290.191, subdivision 7; when that subdivision was repealed the definition was moved to subdivision 6, paragraph (n). Effective the day following final enactment.

- 14 Definition of dependent for property tax refund. Strikes obsolete language in the property tax refund chapter definition of "dependent" that relates to support provided by welfare. The test for dependency is no longer whether the taxpayer provides more than 50 percent of support but whether the individual provides more than 50 percent of their own support. Effective for property tax refunds based on rents paid after December 31, 2006, and for property tax payable after December 31, 2007.

## **Article 11: Department Sales and Use Taxes**

### **Overview**

Makes a number of language changes to comply with the Streamlined Sales and Use Tax Agreement (SSTA) without changing the tax status of the items. The major SSTA changes include:

1. Changing the definitions of telecommunication services and related services
2. Clarifying the treatment of bundled transactions
3. Eliminates the separate gross receipts tax on fur clothing and subjects fur clothing to the sales tax

Makes a number of other miscellaneous changes.

- 1 Bad debt loss. Requires a claimant to file a sales tax refund claim for a bad debt loss by the later of
- ▶ 3 1/2 years from the date the bad debt was written off as uncollectible on the taxpayers' books and records and was either eligible to be deducted for federal income tax purposes or would have been eligible if the taxpayer had been required to file a federal income tax return, or
  - ▶ one year from the due date the federal income tax return was timely filed claiming the bad debt loss.
- Also provides that any payments on previously claimed bad debts must be first applied proportionally to the taxable price of the property or service. Effective the date following final enactment.
- 2 Border city zone refunds (interest). Provides that interest on border city zone refunds is computed from 90 days after the refund claim is filed with the commissioner. Currently interest is computed from the date the claim is filed with the commissioner. Effective for refund claims filed on or after July 1, 2007.
- 3 Penalty for failure to properly complete sales and use tax return. Provides that the penalty for failing to report applies to all local sales taxes that are filed on this form, not just to the local sales taxes. The other taxes include local liquor, restaurant, and liquor taxes. Effective for returns filed after June 30, 2007.
- 4 Penalty for failure to report liquor taxes. Provides a \$2,500 penalty on a liquor distributor for failing to file the required annual report listing the amount of liquor sold in the previous year to liquor retailers. The fine is increased to \$5,000 if the failure to report is intentional. Effective the day after final enactment and will first apply to the 2007 calendar

year report, filed by February 28, 2008.

5 Sale and purchase. Explicitly includes in the definition of taxable sales and purchases items currently taxable under the existing definition of telecommunication services. The state needs to modify the telecommunications definition to conform to the Streamlined Sales Tax Agreement (SSTA) definition and these changes preserve the current tax base. The items included are:

- ▶ telecommunication services for guests at lodging facilities;
- ▶ ancillary services associated with telecommunication services;
- ▶ cable television services;
- ▶ direct satellite services; and
- ▶ ring tones.

Effective for sales and purchases made on or after January 1, 2008.

Also clarifies that delivery charges for aggregate materials by a third party are taxable unless the materials are deposited substantially in place. This would ensure a level playing field between aggregate dealers that provide their own hauling and independent haulers. Effective for sales and purchases after June 30, 2007.

Finally it clarifies that the current inclusion of exterminating services in the list of services subject to sales tax includes pest control services. Effective for sales and purchases made on or after June 30, 2007.

6 Retail sale (price). Modifies the definition of retail sales to reflect changes in SSTA related to bundled transactions and telecommunications without modifying the current state sales tax base. States that a bundled transaction is taxable if one or more products in the bundle are taxable. Provides an exception for the treatment of bundled transactions that include telecommunications, internet access, or audio or video programming. In those transactions the sale can be split and the tax applied to the taxable products only if the business maintains records in the ordinary course of business, and not just for tax purposes, that identifies the appropriate split. Effective for sales and purchases on or after January 1, 2008.

7 Sales price. Makes clarifying changes to the definition of sales price to comply with SSTA.

Delivery charges. Provides that when a delivery includes taxable and tax-exempt goods, the portion of the delivery charge subject to tax is the percentage allocated to the taxable property, with the allocation based either on sales price or weight. Effective the day after final enactment.

Consideration received by seller from third parties. Includes consideration received by the seller from third parties in the sales price subject to tax if all of the following three conditions are met:

- ▶ the seller actually receives consideration from a third party, and it is related to a discount on the sale;
- ▶ the seller is obligated to pass along the discount to the buyer;

▶ the amount of consideration is fixed and determined at the time of sale;  
and one of the following criteria is also met:

- ▶ the buyer gives the seller a coupon for a discount, and a third party will compensate the seller for the coupon amount;
- ▶ the buyer is a member of a group entitled to a discount; or
- ▶ the discount is identified as a third-party discount on the invoice.

Effective for sales and purchases made on or after January 1, 2008.

8 Tangible personal property. Removes a reference to "prepaid calling cards" from the definition of tangible personal property since these sales are now part of prepaid calling services listed under section 0. This change is necessary to comply with the SSTA, and does not change the tax treatment of prepaid calling services. Effective for sales and purchases made on or after January 1, 2008.

9 Telecommunication services. Modifies the definition of telecommunication services to comply with the SSTA. Services that are removed from the definition of telecommunications services will still be subject to sales tax under new definitions provided elsewhere in this article. Effective for sales and purchases made on or after January 1, 2008.

10 Bundled transaction. Adopts the new definition of "bundled transaction" from the SSTA. A "bundled transaction" means two or more otherwise distinct products sold for one non-itemized price. The products cannot include real property or services to real property. Paragraph (d) provides a list of transactions that would not be considered taxable bundled transaction using a "true object" test; a "de minimus" test; and for transactions involving food and medicine a "50%" test. Effective for sales and purchases made on or after January 1, 2008.

11 Ancillary services; definition. Defines "ancillary services" as services related to telecommunications services. These include

- ▶ conference bridging,
- ▶ detailed telecommunications billing,
- ▶ directory assistance,
- ▶ vertical service, and
- ▶ voice mail service

Under current law these are taxed as part of "telecommunications services." Under these changes they will continue to be taxed as ancillary services under section 0. These changes are required for Minnesota to comply with the SSTA. Effective for sales and purchases made on or after January 1, 2008.

12 Conference bridging service; definition. Provides a definition of "conference bridging services" used in the definition of ancillary services in section 0. Conference bridging services are subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.

13 Detailed telecommunications billing service; definition. Provides a definition of "detailed telecommunications billing service" used in the definition of ancillary services in section 0.

Detailed telecommunications billing services are subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax.

Effective for sales and purchases made on or after January 1, 2008.

14 Directory assistance; definition. Provides a definition of "directory assistance" used in the definition of ancillary services in section 0. Directory assistance is subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.

15 Vertical service; definition. Provides a definition of "vertical service" used in the definition of ancillary services in section 0. Vertical service is subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.

16 Voice mail service; definition. Provides a definition of "voice mail service" used in the definition of ancillary services in section 0. Voice mail service is subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.

17 Ring tones; definition. Provides a definition of "ring tones." Ring tones are subject to the sales tax under current law as a telecommunication service. In order for Minnesota to remain in compliance with the SSTA, ring tones are removed from the definition of telecommunication services, but added to the list services subject to sales tax under section 0. Effective the day following final enactment.

18 Fur clothing. Adopts the new SSTA definition of fur clothing. This allows the state to eliminate the gross receipt tax on fur clothing in section 39 and return to taxing it under the general sales tax. Effective for sales and purchases made after June 30, 2007.

19 Use of tangible personal property or taxable services. Provides that if (1) a "bundled transaction" is not taxable because it meets one of the tests in section 0, paragraph (d), and (2) the portion of the price attributable to a taxable item is \$100 or more, then a use tax is imposed on that part of the purchase price. Effective for sales and purchases made on or after January 1, 2008.

20 Presumption of tax; burden of proof. Relieves the seller of liability for sales tax if

- ▶ the seller obtains an exemption certificate from the purchaser at the time of the sale or within 90 days of the sale or
- ▶ if the seller has not obtained an exemption certificate within the 90 days provided and receives a request for substantiation from the commissioner, the seller has an additional 120 days to either obtain an exemption certificate from the purchaser, or to prove by other means that the transaction was not subject to tax.

Under present law, the seller must obtain an exemption certificate from the purchaser at the time of the sale, and must provide the certificate to the commissioner within 60 days of a request for substantiation. The change in this section conforms to the SSTA. Effective for sales and purchases made on or after January 1, 2008.

21 Defined telecommunications service sourcing. Provides that "prepaid wireless calling

service" is subject to the same sourcing requirements as are prepaid calling services. This is required for Minnesota to be in compliance with the SSTA. Effective for sales and purchases made on or after January 1, 2008.

22 Postpaid calling service; definition. Clarifies that the definition of "postpaid calling service" does not include prepaid wireless calling services. Effective for sales and purchases made on or after January 1, 2008.

23 Prepaid calling service; definition. Clarifies that prepaid calling service is a telecommunications service. Effective the day following final enactment.

24 Prepaid wireless calling service; definition. Provide a definition of "prepaid wireless calling service." This service is defined as a telecommunications service, which means that it will remain subject to sales tax. Effective for sales and purchases made on or after January 1, 2008.

25 Ancillary services; sourcing. Provides that ancillary services are sourced to the customer's place of primary use. "Ancillary services" are defined in section 0as conference bridging, detailed telecommunications billing, directory assistance, vertical service, and voice mail service. Effective for sales and purchases made on or after January 1, 2008.

26 Clothing. Removes fur clothing from the general clothing exemption. Fur clothing as defined in section 0will be subject to the sales tax. Effective for sales made on or after July 21, 2007.

27 Baby products; definition. Adds "breast pumps" to the list of baby products that are exempt from sales tax. Previously, the Department of Revenue interpreted durable medical equipment to include breast pumps, but is no longer allowed this interpretation under the SSTA. This change has the effect of retaining the current tax exemption for breast pumps. Effective for sales and purchases made on or after the day following final enactment.

28 Advertising materials. Provides that the sales tax exemption for advertising materials that are mailed or transferred outside the state for use solely outside the state includes all types of shipping materials including boxes, tubes, labels or cartons. Currently the exemption only applies to mailing and reply envelopes and cards. Also clarifies that materials having a primary purpose other than advertising do not qualify as advertising materials and are not exempt. Effective the day following final enactment.

29 Packing materials. Clarifies that the exemption for packing materials only applies to materials that remain with the customer of a for-hire carrier and does not apply to equipment that is owned or used by the for-hire carrier. Also clarifies that the exemption only applies if the ultimate destination of the goods is outside Minnesota and if the packing materials are not later returned to Minnesota. The exemption does not apply to tools, pads, or equipment owned or leased by the for-hire carrier. Effective for sales and purchases made after June 30, 2007.

30 Telecommunications, cable television and direct satellite service equipment. Adds machinery and equipment used by a cable television or direct satellite service provider primarily for the purpose of providing cable television or direct satellite services that are to be sold at retail to the sales tax exemption for telecommunications equipment. Under current law, this equipment is included in the definition of telecommunication services; section 0removes these items from that definition, in order for Minnesota to remain in compliance with the SSTA. This section maintains the exemption for cable television and direct satellite equipment as in current law. Effective for sales and purchases made on or after January 1, 2008.

31 Hospital and nonprofit units. Provides that the exemption for hospitals and outpatient surgical centers applies to an entity that is composed of a licensed nonprofit hospital and a

nonprofit unit provided that the nonprofit unit would have qualified as an organization exempt from the sales tax, and the items purchased would have qualified for the exemption. Effective the day following final enactment.

- 32 Private communication services for state lottery. Maintains the tax exemption for private communication services purchased by an agent acting on behalf of the state lottery. Under present law, the term "telecommunication services" specifically excludes private communication services for the state lottery; section 0 removes these items from that definition, in order for Minnesota to remain in compliance with the SSTA. This section maintains the exemption for private communication services for the state lottery as in current law. Effective for sales and purchases made on or after January 1, 2008.
- 33 Fully completed exemption certificate. Conforms the elements of a fully completed sales tax exemption certificate to the requirements of the SSTA. Also adds a subdivision to clarify that a purchaser is required to update exemption certificates used by the purchaser, including blanket exemption certificates, when the purchaser's information changes. Effective the day following final enactment.
- 34 Liquor reporting requirements, penalty. Imposes the duty on persons who sell liquor to a liquor retailer shall file an annual informational report or be subject to the penalty imposed in section 0. Effective the day after final enactment.
- 35 Payment of tax (motor carriers). Provides that when interstate motor carriers compute their use tax under a motor carrier direct pay permit, the sales price may be reduced only by taxes that are directly imposed upon the carrier and that are separately stated on the billing or invoice given to the purchaser. Effective the day following final enactment.
- 36 Ordinary course of business (motor vehicle resale exemption). Clarifies that the exemption from the motor vehicle sales tax for vehicles purchased for resale applies to motor vehicles purchased solely for resale in the ordinary course of business by licensed dealers and is not limited to vehicles bearing dealer plates. If the vehicle is not held solely for resale and is put to use by the dealer, the dealer's purchase of the vehicle would be subject to tax. Effective the day following final enactment.
- 37 Sales tax exemption (interest on border city zone refunds). Provides that interest on border city zone refunds of sales tax will be computed from 90 days after the refund claim is filed with the commissioner. Under present law interest is computed from the date the claim is filed with the commissioner. Effective for refund claims filed on or after July 1, 2007.
- 38 Fur tax payments. Provides transition language to collect the last payments of the gross receipt tax on fur clothing that is now replaced with the sales tax on fur clothing. Effective for sales made prior to July 1, 2007.
- 39 Repealer. Paragraph (a) repeals Minnesota Statutes, section 295.60; which is the gross receipts tax on fur clothing. This tax is no longer necessary since fur clothing will now be subject to the general sales tax. Effective for sales and purchases on or after July 1, 2007.

Paragraph (b) repeals Minnesota Statutes, section 297A.61, subdivision 20, which is a definition of "prepaid telephone calling card" made unnecessary by other changes in this article to telecommunications services taxation. Effective for sales and purchases made on or after January 1, 2008.

Paragraph (c) repeals Minnesota Statutes, section 297A.668, subdivision 6, which provided for multiple points of use sourcing for a digital good, service or electronically delivered computer software, which will now be sourced under section 297A.668. Effective the day

following final enactment.

Paragraph (d) repeals Minnesota Statutes, section 297A.67, subdivision 22, which provides an exemption for property brought into Minnesota by persons who were nonresidents of Minnesota immediately prior to bringing the property into Minnesota for personal use. The exemption is not needed since Minnesota Statutes, section 297A.63 only imposes the use tax on a person who has purchased property for use, storage, distribution or consumption in Minnesota. Effective the day following final enactment.

## **Article 12: Department Property Taxes and Aids**

### **Overview**

Department of Revenue technical and administrative changes.

- 1 Airflight property tax recodification; definition of flight property recodification. Expands the definition of taxable flight property to clarify that it includes computers and computer software used to operate, control or regulate the aircraft. Effective the day following final enactment.
- 2 Airflight property tax recodification; assessment of flight property. Clarifies that taxable flight property includes flight property owned by, leased by, or otherwise available to a company. Effective the day following final enactment.
- 3 Airflight property tax recodification; reports by companies. Adds the July 1 deadline for the airline company annual reports; this is the date currently fixed by the commissioner under the discretionary authority in this subdivision. Also strikes a late-filing penalty which is recodified in section 0, subdivision 1. Effective for reports due in 2007 for airflight taxes payable in 2008, and thereafter.
- 4 Airflight property tax recodification; lien. Strikes references to taxes collected by the commissioner of revenue; the airflight property tax is credited to the state airports fund and collection decisions are made by the aeronautics division of Minnesota department of transportation rather than the commissioner of revenue. Effective January 2, 2007, for airflight property taxes payable in 2008 and thereafter.
- 5 Airflight property tax recodification; penalties. Recodifies the late-filing penalty which was stricken in section 0, and adds three new penalties to the airflight property tax:
  - ▶ a penalty for repeated instances of late filing equal to 10 percent of the tax eventually assessed;
  - ▶ a penalty for a frivolous annual report equal to 25 percent of the tax eventually assessed; and,
  - ▶ a penalty for fraudulent annual reports equal to 50 percent of the tax eventually assessed.

All penalties are added to the tax and collected along with the tax. Effective for annual reports due on or after July 1, 2007.

- 6 Airflight property tax recodification. Applies the commissioner's general examination and investigation powers to the airflight property tax. Effective January 2, 2007, for taxes payable in 2008 and thereafter.

- 7 Airflight property tax recodification; class rates. Clarifies that the reduced class rate applicable to Stage 3 "quiet" aircraft also applies to Stage 4 aircraft, which must meet even more stringent noise-attenuation standards. Effective January 2, 2007, for taxes payable in 2008 and thereafter.
- 8 Airflight property tax recodification; appeals. Clarifies that the notices of net tax capacity and of tax that the commissioner is required to issue to airline companies are "orders" of the commissioner that may be appealed to Tax Court. Effective for taxes payable in 2008, and thereafter.
- 9 Purpose and powers of board of assessors. Strikes the words "establish" and "conduct" from the list of Board of Assessors' duties with regard to training courses because the board does not establish or conduct training courses.
- 10 Board of assessors; definition. Adds a definition of "board" to mean "Board of Assessors" for the sections of statute dealing with the board of assessors.
- 11 Composition of the board. Makes current various outdated references in the section of statute describing the membership of the board of assessors. Deletes an obsolete reference to the Minnesota Association of Assessors, which no longer exists. Clarifies that a member of the board who is no longer engaged in the capacity for which he or she was nominated to the board is disqualified from membership on the board. Deletes a reference to the secretary and adds a reference to the vice chair.
- 12 Basis for license revocation. Replaces a provision allowing the Board of Assessors to refuse or revoke a license for "unprofessional conduct" with a provision that allows the Board to refuse or revoke a license for failure to comply with the Code of Conduct and Ethics for Licensed Minnesota Assessors.
- 13 Prohibited activity. Replaces specific references to "an assessor," "deputy assessor," "assistant assessor," or "appraiser" with the more generic "a licensed assessor," because all of the other designations are licensed assessors.
- 14 Charges for courses, examinations, and materials. Strikes references to fees for course challenge examinations and retests of board-sponsored educational costs because the board does not conduct these courses or retests.
- 15 Definition of the term "board." Changes a reference from "Board of Assessors" to "board," since section 0 defined the term "board" to mean "Board of Assessors" for a range of sections of statute.
- 16 Training courses. Makes technical changes reflecting the fact that the board reviews and approves but does not establish training courses and also to expand the list of entities offering training courses that the board reviews and approves.
- 17 Rules. Directs the board to "adopt" rather than "establish" rules, strikes requirements that the board administer examinations, and adds review language for revocation or refusal to grant licenses. This incorporates language from section 270.41, subdivision 4, which is being repealed in section 0 and resolves inconsistencies between the two sections.
- 18 Licensure of qualified persons. Updates technical language and requires licensure to be as provided in rules adopted by the board.
- 19 Employment of licensed assessors. Strikes language that is being moved to chapter 273, requiring counties or local districts to pay the cost of training courses (moved to section 0) and allowing cities or towns 90 days from the date of incorporation to employ a licensed assessor (moved to section 0) because these provisions do not relate to the board's licensing function, and will be coded closer to similar provisions in chapter 273. Strikes a sentence stating if the governing body of a township or city fails to employ an assessor, the assessment is made by the county assessor since this is already provided for in chapter 273.

- 20 Certificates of real estate value. Along with section 0, provides that a married person who is not an owner of record and who is signing a deed or other conveyance instrument along with their spouse solely because of the statutory requirement that spouses sign certain conveyances, is not a grantor for the purpose of the certificate of real estate value and is not required to provide their social security number. Effective for certificates filed on or after July 1, 2007.
- 21 Airflight property tax recodification. Authorizes the commissioner to abate penalties under the airflight property tax if a company was late in submitting its annual report for reasonable cause or if the company is located in a presidentially declared disaster area.
- 22 JOBZ property tax exemption. Requires that businesses that first become eligible for JOBZ property tax exemptions for payable 2008 and later years must notify the assessor by July 1 of the assessment year in which they first become eligible in order to receive the property tax exemption.
- 23 Certificates of real estate value. Along with section 0, provides that a married person who is not an owner of record and who is signing a deed or other conveyance instrument along with their spouse solely because of the statutory requirement that spouses sign certain conveyances, is not a grantor for the purpose of the certificate of real estate value and is not required to provide their social security number. Effective for certificates filed on or after July 1, 2007.
- 24 Cities and townships; employment of licensed assessors. Adds language allowing cities or towns 90 days from the date of incorporation to employ a licensed assessor; this language is stricken from chapter 270 in section 0, and is recoded in this section in chapter 273, closer to similar provisions. Also makes minor grammatical changes.
- 25 County or local assessing district to assume cost of training. Adds language requiring counties and local districts to pay the cost of training courses; this language is stricken from chapter 270 in section 0, and is recoded in this section in chapter 273, closer to similar provisions. Also makes minor grammatical changes.
- 26 Green acres. Strikes inoperative transitional provisions for corporate entities. Effective the day following final enactment.
- 27 Valuation reduction for property subject to a conservation easement. Replaces the requirement that property subject to a conservation easement is entitled to a reduced valuation with language that permits property subject to an easement to receive a reduction. This would allow the assessor to determine the value of the property subject to the easement. This section is effective the day following final enactment.
- 28 Valuation of real property; electronic notification. Permits assessors to provide valuation notices in electronic format after receiving written request from the property owner instead of on paper or by ordinary mail. Effective for notices required in 2008 and thereafter.
- 29 Reassessment of damaged homesteads. Replaces references to property tax assessments for "January 1" with references to assessments for the assessment year. Since New Year's Day is a state holiday, the assessments do not take place "as of" that date. Effective the day following final enactment.
- 30 Reassessment of damaged homesteads. Replaces references to valuation as of January 1, which is a state holiday, with references to valuation as of January 2<sup>nd</sup>, in providing for local tax rate computation when there are reassessments due to damage from a disaster or emergency. Effective the day following final enactment.
- 31 Homesteads. Clarifies that homestead applications must contain the social security numbers of each occupying spouse of an owner or owner's relative. Also strikes obsolete language relating to the homestead application. Effective the day following final enactment.

- 32 Homesteads for trust-held property. Allows homestead treatment for property held by a trust, rented to an authorized farming entity, and actively farmed by a member of that entity who is also a grandchild of the trust's grantor. Under current law, grandchildren are not mentioned in this section of law; however, if a grandchild is actively farming land which is not held under a trust, the land qualifies for homestead treatment under another provision. This change makes all the "actively farming" statutes the same, to reflect how they are being administered. Effective the day following final enactment.
- 33 Disparity reduction credit. Clarifies that the population parameters for the bordering cities in the other states are based on the 1980 census. Effective retroactively for taxes payable in 2001 and thereafter.
- 34 Utility values are recommended rather than ordered values. Clarifies that values listed and assessed by the commissioner shall be provided by order (pipelines). Section 37 states that all values not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 35 Utility values are recommended rather than ordered values. Clarifies that values listed and assessed by the commissioner shall be provided by order (transmission lines). Section 37 states that all values not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 36 Utility values are recommended rather than ordered values. Clarifies that values listed and assessed by the commissioner shall be provided by order (electric light, power, gas, water, etc.). Section 37 states that all values not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 37 Utility values are recommended rather than ordered values. Adds a new section 273.3711 that references each of the specific utility property not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 38 Prohibit members of local boards from acting on their own appeals. Prohibits a local board member or the member's spouse, parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, aunt, nephew or niece from participating in any actions of the board that result in market value adjustments or classification changes to property owned by the board member or to property in which a board member has a financial interest. This section is effective the day following final enactment.
- 39 Prohibit members of county boards from acting on their own appeals. Prohibits a county board member or the member's spouse, parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, aunt, nephew or niece from participating in any actions of the board that result in market value adjustments or classification changes to property owned by the board member or to property in which a board member has a financial interest. This section is effective the day following final enactment.
- 40 Training; county boards of appeal and equalization. Extends the current training requirements that apply to local boards to county boards of appeal. Requires the Department of Revenue to develop a handbook detailing procedures, responsibilities, and requirements for county boards of appeal and equalization by January 9, 2009. Counties that conduct county boards of appeal and equalization meetings will need to provide proof to the commissioner by December 1, 2009, and each year thereafter, that they are in compliance and that there was a quorum of voting members at each meeting. Counties that are out of compliance would be required to appoint a special board of equalization. This section is

effective the day following final enactment.

41 Notice of proposed property taxes; electronic form. Allows the treasurer to send the proposed notice (TnT) in electronic form or by electronic mail instead of on paper or by ordinary mail, upon written request by the taxpayer. Effective for notices required in 2007, payable in 2008 and thereafter.

42 Public advertisements. Allows the commissioner to prescribe alternate language for the Truth-In-Taxation public advertisements. Requires the commissioner to provide a copy of the prescribed advertisements to the chairs of the House and senate tax committees at least two weeks before November 29 each year. Effective for advertisements in 2007 and thereafter for proposed taxes payable in 2008 and thereafter.

43 Notification by newly organized special taxing districts. Requires that newly organized special taxing districts and special taxing districts organized in a prior year that have not previously certified a levy to the county auditor, must notify the auditor by July 1 in order to certify a tax levy that year. Effective for taxes payable in 2008 and thereafter.

44 Electronic property tax statements. Allows county to send out property tax statements by electronic means instead of billing, upon written request by the owner of the property or the owner's agent. Effective for tax statements for taxes payable in 2008 and thereafter.

45 Partial payments of property taxes. Provides uniform treatment for partial payments of either property tax installments or for the full amount due for the year. The prescribed treatment is that the payment (a) must be applied to the oldest unpaid installment or year first, and (b) must be applied first to penalty or interest if the payment is less than the full amount due for that installment or year. Effective for payments made on or after the day following final enactment.

46 Partial payments of property taxes. Provides uniform treatment for partial payments of either property tax installments or for the full amount due for the year. The prescribed treatment is that the payment (a) must be applied to the oldest unpaid installment or year first, and (b) must be applied first to penalty or interest if the payment is less than the full amount due for that installment or year. Effective for payments made on or after the day following final enactment.

47 Auxiliary forests. Adds owners of land previously covered by an auxiliary forest contract to the definition of claimant and adds cross references to the auxiliary forest provisions which currently provide that certain land previously covered by an auxiliary forest contract is automatically eligible for inclusion in the Sustainable Forest Incentive program. Those owners would be required to notify the commissioner of revenue in writing of the expiration of the auxiliary forest contract. Requires the owners to file an application by August 15 in order to receive a payment by October 1 of that same year. Effective the day following final enactment.

48 Sustainable forest act appeals. Provides the cross reference to the new section containing the appeal procedure. Effective the day following final enactment.

49 Annual certification. Clarifies that the one-year waiting period in order to receive a payment only applies to the person who filed the first application to enroll the land in the Sustainable Forest Incentive program. Effective the day following final enactment.

50 Sustainable forest act appeals. Provides the cross reference to the new section containing the appeal procedure. Effective the day following final enactment.

51 Sustainable forest act appeals. Provides an administrative procedure for appeals which is similar to those used for other tax appeals. Effective the day following final enactment.

52 Repealer. (a) Repeals section 270.073 dealing with airflight property taxes. It is replaced by references to Minnesota Statutes, sections 270C.31 and 270C.32. Effective January 2, 2007

for taxes payable in 2008 and thereafter.

Paragraph (b) repeals

- Section 270.41, subdivision 4; the language is moved to Minnesota Statutes, section 270.47.
- Section 270.43 (members of the board receive no compensation but do receive expenses) that conflicts with Minnesota Statutes, section 270.42 (compensation of members shall be as provided in Minnesota Statutes, sections 214.07 to 214.09). Minnesota Statutes, section 214.09 states that board members shall be paid a per diem of \$55 plus expenses. The board's practice is to follow section 214.09.
- Section 270.51 because it is an obsolete transitional provision.
- Section 270.52 that deals with the cost of making assessments; now dealt with in chapter 273.
- Section 270.53 is obsolete transitional provision.

Effective the day following final enactment.

## **Article 13: Department Special Taxes**

### **Overview**

This article makes various changes recommended by the Department of Revenue to the insurance premiums tax, the deed tax, the MinnesotaCare tax, and the cigarette and tobacco products use taxes. The more significant changes:

- Clarify the treatment of nonresident pharmacies under the MinnesotaCare tax
- Reduce the de minimis exemption for tobacco products use tax and clarify the exemption for the cigarette tax
- Modify the insurance premiums tax underpayment penalty and impose a new penalty for failure to file an insurance premiums tax return

- 1 Insurance premiums tax; deficit assessments. Replaces a general reference to "past or future" premium taxes with the statutory reference authorizing the joint underwriting association offset to the insurance premiums tax. Effective for tax returns due on or after January 1, 2008.
- 2 Insurance premiums tax; reciprocal or interinsurance contract. Deletes a reference to the

insurance premiums tax being in lieu of all other taxes. Effective the day following final enactment.

3 Deed tax; exemption for redeeming debtors. Clarifies in what circumstances the exemption from deed tax for a debtor who redeems at a mortgage or lien foreclosure sale applies. Under current law the exemption uses the word "lienee" to describe the exempt party, but that term has undergone a change in usage in recent years. Clarifies that the exemption applies if the property is redeemed by a person who used to own the property, or their assignee, heir, personal representative, or successor. Effective the day following final enactment.

4 Deed tax; conveyances to governmental subdivisions for public use. Provides that the deed tax is \$1.65 on conveyances without monetary consideration of tax-forfeited land to governmental subdivisions for authorized public uses and redevelopment purposes. Effective the day following final enactment.

5 MinnesotaCare tax; drugs from nonresident pharmacies. Clarifies that a person who receives drugs from a nonresident pharmacy is not subject to tax. Under language effective in 2005, the use tax is not imposed on purchases by individuals for personal consumption. An individual who receives prescription drugs for resale or use in Minnesota, other than from a wholesale drug distributor who is subject to tax, remains subject to the use tax. Effective the day following final enactment.

6 Use tax collection; nonresident pharmacies. Clarifies that nonresident pharmacies are not required to collect the use tax. Since individuals who purchase drugs for their own use are not required to pay the use tax, this section will exempt nonresident pharmacies from collecting the tax. Effective the day following final enactment.

7 Pharmacy refund. Provides that the refund claimed by pharmacies for amounts paid for drugs delivered outside of Minnesota will be applied against the health care provider tax. Under current law, the refund is applied against the pharmacy tax under subdivision 1b, which has been repealed. Effective the day following final enactment.

8 Tobacco products use tax. Reduces the exemption from the tobacco products use tax from \$100 to \$50 provided that the products were carried into the state by the consumer. Effective for the possession, use, or storage of tobacco products on or after July 1, 2007.

9 Cigarette consumer use tax. Requires cigarette consumer use tax on consumer use of cigarettes if the cigarette sales tax has not been paid. Provides that the tax does not apply to purchases of 200 or fewer cigarettes per month that were carried into the state by the consumer. Effective for cigarettes purchased on or after July 1, 2007.

10 Insurance policies surcharge. Clarifies that none of the insurance policy surcharges are subject to the retaliatory tax. Effective July 1, 2007, and applies to policies written or renewed on or after July 1, 2007.

11 Exemptions; fire insurance premiums. Clarifies that mutual property and casualty companies eligible to elect a one-half of one percent fire premiums surcharge rather than the typical fire premium surcharge must remit the total surcharge collected. Also provides a timeline for eligible companies to elect the alternate surcharge. The requirement for certain insurers to make an election before July 1, 2007, is effective the day following final enactment; the rest of this section is effective July 1, 2007, and applies to insurance policies written or renewed on or after that date.

12 Joint underwriting association offset. Requires the joint underwriting offset to be used against premium tax liability beginning in the year the offset is received, with any remaining offset carried forward and used against liability in succeeding tax years. This is the same treatment provided for guarantee association assessment offsets. Effective for tax

- 13 returns due on or after January 1, 2008.  
Insurance premiums tax underpayment penalty. Changes the definition of "tax" used to calculate the underpayment of installment penalty to include the retaliatory tax and certain credits if used. Effective for tax returns due on or after January 1, 2008.

## Article 14: Miscellaneous

### Overview

Increases the amount in the budget reserve account by \$30 million.

Creates a special account to reduce volatility in state revenue flows due to expected shifts in the timing of capital gains realizations because of the 2010 sunset of the current preferential federal tax rates. Present federal law provides that the maximum tax rate on most long-term capital gains will rise from 15 percent to 20 percent, effective for tax year 2011.

Amends laws governing debt collection by the debt collection division in the Department of Revenue.

Requires the Department of Revenue to maintain toll-free taxpayers assistance telephone service.

Requires the commissioner to award taxpayer assistance grants by October 1<sup>st</sup> of each year, and to notify past grant recipients when grant applications are being accepted.

- 1 Budget reserve. Directs the commissioner of finance to transfer \$30 million to the budget reserve account on July 1, 2007.
- 2 Additional revenues; priorities. Modifies the accounts and purposes for which the commissioner of finance is directed to allocate positive unrestricted general fund balances, by increasing the amount required for the budget reserve from \$653 million to \$683 million, and by adding as third priority for unrestricted balances in the current biennium the tax volatility reduction account proposed in section 0, until the balance in that account reaches the amount designated for transfer. Strikes provisions to increase the school aid payment schedule to 90 percent and to reduce the property tax recognition shift, since these two priorities have been met. Adds a new requirement that positive unrestricted general fund balances for the next biennium are transferred to the tax volatility reduction account on the first day of the next biennium, until that account reaches the amount designated for transfer.
- 3 Tax volatility reduction account. Creates a tax volatility reduction account in the general fund. Directs the commissioner of finance to include as part of each economic forecast, beginning with the November 2007 forecast, an estimate of state revenue gain or loss because taxpayers increase (or decrease) realization of capital gains in anticipation of changes in federal tax rates for capital gains income. Directs the commissioner to designate for transfer to the account state revenue gains expected as a result of federal rate changes, and to transfer from the account and into the general fund the amount, to the extent available, needed to offset state revenue losses. Amount designated for transfer to the tax

volatility reduction account will be transferred as positive general fund balances become available as provided in section 0.

Background. The current maximum federal tax rates on capital gains income are 15 percent for most taxpayers and 0 percent for low-income taxpayers. Absent federal legislation, in tax year 2011 these rates will expire and federal tax rates on capital gains income will revert to the previous maximum rates of 20 and 10 percent.

The November 2006 and February 2007 economic forecasts assume that taxpayers will sell assets sooner than they otherwise would have to avoid paying the higher tax rates scheduled to be in effect starting in tax year 2011. This assumption is based on experience with the response to past federal changes in tax rates for capital gains income (e.g., in 1986-87, when the maximum rate increased from 20 percent to 28 percent).

If the federal government acts to make permanent the preferential rates for capital gains income before they expire at the end of 2010, the additional state revenue for fiscal year 2011 would be removed from the forecast, and the decreased state revenue for fiscal year 2012 would also be removed (once fiscal year 2012 is within the forecast window).

If the federal government extends the preferential rates for capital gains income before they expire at the end of 2010, the additional revenue in fiscal 2011 and the decreased revenue in fiscal 2012 shift into the future.

- 4 Duties. Changes the law governing debt collection by debt collection division in the Department of Revenue to refer to debts referred for collection under chapter 16D, rather than to debts owed the state.
- 5 Agency participation. Requires referring agencies to refer debts to the commissioner by electronic means. Provides that before a debt is 121 days past due, a referring agency may refer the debt to the commissioner at any time after it becomes delinquent and uncontested and the debtor has no further administrative appeal. (Maintains the current law, under which a referring agency must refer the debt to the commissioner when it becomes 121 days past due.)
- 6 Computation. Provides that when a debt is referred the amount of collection costs is 17 percent of the debt. Strikes current law, which provides that the amount is 15 percent, or 25 percent if certain enforced collection action is necessary.
- 7 Adjustment of rate. Provides for the commissioner of revenue, rather than finance, to determine rate of collection costs. Provides a maximum of 25 percent of the debt, striking current law, which says the rate of collection costs when a debt is first referred cannot exceed three-fifths of a maximum.
- 8 Minnesota Land Conservation Incentives Act.

Subd. 1. Citation. Provides for this section to be called the "Minnesota Land Conservation Incentives Act of 2007."

Subd. 2. Purpose and findings. States that the legislature finds that Minnesota's unique natural resources are:

- of significant benefit to the state;
- being lost at an alarming rate; and

- often found on privately owned land.

and states that the legislature shall provide landowners with incentives to protect private lands.

Subd. 3. Definitions. Defines the following terms:

- (a) "Fee interest in real property" means fee title in real property.
- (b) "Public conservation agency" means the state of Minnesota or a Minnesota county.
- (c) "Landowner" means an individual, estate, trust, partnership or S corporation.
- (d) "Eligible landowner" means a landowner who makes a donation of fee interest in real property to a public conservation agency.
- (e) "Donation of fee interest in real property" means the unconditional donation of real property in Minnesota that meets the criteria for designation as a scientific and natural area (SNA).

Subd. 4. Land conservation grant; eligibility. Provides that an eligible landowner is eligible for a grant equal to 30 percent of the value of a donation of land that meets SNA criteria, up to a maximum grant of \$200,000. Provides that the public agency must be willing to accept the donation, and prohibits payments in lieu of taxes on land for which grants are issued after the donation occurs. Requires the donation to be unconditional and requires the fair market value used as the basis for the grant amount to be substantiated by a qualified appraisal. Requires eligible taxpayers to establish eligibility with the commissioner of natural resources to be considered for a grant, and limits statewide grants to \$1 million per year.

Subd. 5. Land conservation grant; award by commissioner. Requires the commissioner of natural resources to:

- ▶ approve donations that qualify for grants,
- ▶ determine criteria and priorities for awarding grants to donations that are approved for a grants,
- ▶ provide grants to taxpayers who meet the criteria and priorities, and
- ▶ limit total grants to \$1 million per year.

Subd. 6. Authorizing rulemaking; requiring report. Authorizes the commissioners of natural resources and revenue to adopt rules as needed to implement the credit program under this section. Directs the commissioner of natural resources to provide an annual report to the legislature that shows the lands protected under this section.

Subd. 7. Construction. Provides that this section is not to be interpreted to alter or amend any requirements set forth in other provisions of state law.

- 9 Toll-free taxpayer assistance telephone service. Requires the commissioner of revenue to maintain toll-free taxpayer assistance telephone service for calls from within Minnesota.
- 10 Taxpayer assistance grants timing and notification. Requires the commissioner to complete the process of making grants to nonprofit organizations to provide taxpayer assistance services by October 1<sup>st</sup> of each year, so that organizations receiving grants can adequately plan to host sites for the coming income tax filing season. Also requires the commissioner to directly notify past grant recipients each year when the grant process begins.

- 11 Tax refunds not subject to attachment or garnishment. Amends Minnesota Statutes, chapter 270C, by adding a new section 270C.435, to technically clarify longstanding administrative procedure that tax refunds are not assignable or subject to attachment, garnishment or other legal process except as provided by law. Effective the day following final enactment.
- 12 Publication of tax preparers who knowingly file false returns. Requires the commissioner to publish the name of tax preparers who have been assessed over \$1,000 of penalties for willfully prepared Minnesota returns that understate the Minnesota tax or overstate a claimed refund. Does not apply to preparers who are challenging the penalty assessment. Effective for penalties on returns filed after December 31, 2007.
- 13 Liability imposed. Makes taxes imposed under chapters 295 (MinnesotaCare tax), 296A (motor fuels tax), 297A (sales and use tax), 297F (cigarette and tobacco tax), 297G (alcoholic beverage tax) and sections 290.92 (income tax withholding) and 297E.02 (lawful gambling taxes) subject to applicable penalties in current law for nonpayment.
- 14 Period of limitations. Amends the law dealing with tax liens to provide that a notice of lien filed by the commissioner of revenue at the Office of Secretary of State may be transcribed to any county within 10 years after the date of its filing, but the transcription does not extend the period during which the lien is enforceable.
- 15 State reimbursement of supplemental firefighter benefits. Provides that the commissioner of revenue will transmit the state reimbursement of supplemental firefighter benefits to the applicable municipality instead of directly to the relief association. The municipality is then responsible for either timely transmitting the payment to the relief association or for delaying the payment until the association has filed its required financial report. This conforms these payments to the process currently required by statute for the other state aid payments for police and fire pensions that are paid by the commissioner. Effective for aid payments in 2007 and thereafter.
- 16 Financial management. Provides that any unrestricted balance in the general fund on June 30, 2007 remains in the general fund rather than being transferred to the tax relief account.
- 17 Homestead credit state refund transition reserve. Transfers \$84,295,000 from the general fund to a new homestead credit state refund transition reserve account on June 29, 2009, and then transfers the balance in the homestead credit state refund transition reserve account back to the general fund on July 1, 2009. Abolishes the homestead credit state refund transition reserve account on July 2, 2009. Use of this account to transfer money across biennia compensates for timing differences between when revenues needed to pay homestead credit state refunds are paid into the general fund and when refunds are paid by the state.
- 18 Appropriation; cellulosic ethanol production grants. Appropriates \$4,735,000 from the general fund to the commissioner of agriculture for a grant to design and construct a new plant or convert an existing plant to produce ethanol from cellulosic material. The grant would be awarded through a competitive process. The NextGen Energy Board, as proposed to be established by HF 2227 (the Omnibus Agricultural Finance Bill), would award the grant. This Board is made up of representatives of state agencies (Agriculture, Commerce, DNR, PCA, and DEED), legislative appointees, and AURI, as well as persons appointed by the governor that represent MnSCU, the University of Minnesota, two statewide agriculture organizations and two statewide environment and natural resources conservation organizations.

The board is to select a proposal that:

- Has sufficient funding from all sources
- Shows the economic viability of the project after paying construction costs
- Can be easily replicated elsewhere in the state

Proposals that solely substitute cellulosic sources for fossil fuels (e.g., to provide energy to help operate the plant itself) do not qualify.

19 Appropriation; land conservation grants. Appropriates \$1 million in fiscal year 2008 and \$1 million in fiscal year 2009 for land conservation grants under this section 0. \$1 million per year becomes part of the Department of Natural Resources' base budget for fiscal years 2010-2011.

20 Appropriation; administration. Appropriates \$342,500 in fiscal year 2008 and \$85,500 in fiscal year 2009 to the commissioner of revenue for administration of this act, including:

- ▶ \$150,000 for the fiscal disparities study in article 3;
- ▶ \$87,000 for the sales and use tax study in article 6; and
- ▶ \$73,000 in fiscal year 2008 and \$58,000 on an ongoing basis for administration of form 1099 reporting in article 5.